PENSION FUND COMMITTEE

Thursday, 23 July 2020

Democratic and Members' Services
Fiona McMillan
Monitoring Officer

<u>10:00</u>

Shire Hall
Castle Hill
Cambridge
CB3 0AP

COVID-19

During the Covid-19 pandemic Council and Committee meetings will be held virtually for Committee members and for members of the public who wish to participate. These meetings will held via Zoom and Microsoft Teams (for confidential or exempt items). For more information please contact the clerk for the meeting (details provided below).

AGENDA

Open to Public and Press

the grounds that the agenda contains exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended, and that it would not be in the public interest for this information to be disclosed information relating to the financial or business affairs of any particular person (including the authority holding that information)

8. Covid-19 and Funding Risks

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

9. Annual Review of the Fund's Investment Managers

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

10. Investment Manager Fee Review

- Information relating to the financial or business affairs of any particular person (including the authority holding that information);

The Pension Fund Committee comprises the following members:

Councillor Terence Rogers (Chairman)

Mr Lee Phanco Mr Matthew Pink Councillor Richard Robertson Councillor David Seaton and Mr John Walker Councillor Peter Downes Councillor Ian Gardener Councillor Anne Hay and Councillor Mike Shellens

For more information about this meeting, including access arrangements please contact

Clerk Name: Dawn Cave

Clerk Telephone: 01223 699178

Clerk Email: dawn.cave@cambridgeshire.gov.uk

MINUTES OF THE PENSION FUND COMMITTEE

Date: Thursday 18th June 2020

Time: 10.00am – 1.05pm

Venue: *Meeting held remotely in accordance with The Local Authorities (Coronavirus) (Flexibility of Local Authority Meetings) (England) Regulations 2020*

Present: County Councillors P Downes, I Gardener, A Hay, T Rogers and M Shellens; Cambridge City Councillor R Robertson; Lee Phanco, Matthew Pink and John Walker

Officers: B Barlow, C Blose, D Cave, P Gent (Mercer), S Heywood, M Hodgson (Ernst Young), M Oakensen, R Sultana, P Tysoe, J Walton and M Whitby

Apologies: None

184. NOTIFICATION OF CHAIRMAN AND APPOINTMENT OF VICE-CHAIRMAN

It was noted that Councillor T Rogers had been appointed as Chairman of the Pension Fund Committee at the full Council meeting held on 19th May 2020.

Having been duly moved and seconded, it was unanimously resolved to appoint Councillor I Gardener as the Vice Chairman of the Pension Fund Committee.

185. DECLARATIONS OF INTEREST

Councillor Robertson declared an interest as his wife was in receipt of a small pension.

186. APPOINTMENT OF INVESTMENT SUB-COMMITTEE

Having noted that as set out in the County Council Constitution the Chairman and the Vice Chairman of the Committee (Councillors Rogers and Gardener) automatically became the Chairman and Vice Chairman of the Investment Sub-Committee, the following appointments were agreed as set out below from those relevant to take part in the approval process.

Cambridgeshire County Council (CCC) Members – four

The following four Councillors listed below had been proposed by Full Council taking into account political proportionality but required the approval by the Committee.

Automatically appointed as a result of their appointment as Chairman and Vice-Chairman:

Chairman Councillor Terry Rogers (Conservative)
Vice Chairman: Councillor Ian Gardener (Conservative)

It was resolved to confirm the following County Councillors as one of the other two appointments to the Pension Fund Investment Sub-Committee:

Councillor Mike Shellens (Liberal Democrat)

There was currently one County Councillor vacancy (Labour).

All other employers – two

Two places were required to be drawn from the two Committee member places representing ‘all other local authorities, police and fire’ and the one Committee member place representing ‘all other employers’. It was confirmed that Peterborough City Councillor David Seaton would be appointed to one of these vacancies, whilst the other appointment was currently a vacancy.

The Committee resolved to endorse this appointment:

- Councillor David Seaton

Scheme member representative – one

This appointment was required to be drawn from either the one Committee member representing Active Scheme Members or the one Committee member representing deferred and pensioner scheme members. The appointee was John Walker. Mr Walker advised that he had been further appointed by UNISON to serve until 2022.

It was resolved to endorse this appointment: John Walker.

187. PUBLIC QUESTIONS

A Question had been received from Mr Richard Potter. Mr Potter was invited by the Chairman to present his question:

“On behalf of the Cambridge Green Party.

“Greening Finance is one element of the Climate Change and Environment Strategy. It states that ‘*The Council and its Local Authority partners, together, are well placed to drive emission reductions*’.

“On 9th October 2019 the Guardian Newspaper reported 20 Companies identified by Richard Heede at the US Climate Accountability Institute. These ‘*have contributed to 35% of all energy-related carbon dioxide and methane worldwide, totalling 480bn tonnes of carbon dioxide equivalent (GtCO2e) since 1965.*’

“Will the Council take action so that the Cambridgeshire Pension Fund joins those of other Local Authorities in divesting from fossil fuel companies? Other Councils including the Cheshire Pension Fund, the West Midlands Pension Fund and Waltham Forest are already doing this.”

At the invitation of the Chairman, the Head of Pensions provided the following response:

The Pension Fund strongly believes in responsible investing, reflecting an overriding fiduciary and public law duty to act in the best long-term interests of its stakeholders, including scheme members and employers, to achieve the best possible financial return, with an appropriate level of risk.

The Fund recognises the importance of how environmental, social and governance (ESG) factors can impact on financial performance and specifically with regards to climate risk, have recognised in our risk register that climate risk has the potential to significantly alter the value of the Fund's investments.

The Fund requires all investment managers to take account of both financial and non-financial factors in their investment decisions, including around the selection, retention and realisation of investments. Managers are challenged on their engagement activities in connection with ESG issues, including climate risk, and must report regularly on their compliance with our policy.

A considerable amount of each discussion with an investment manager, both at a Fund and asset pool (the ACCESS asset pool) level, is dedicated to ESG, and where necessary further dedicated meetings have been convened.

The outcome of this policy within the Fund equity holdings has been a reduction in fossil fuel holdings from 5.4% of the Fund in 2017-18 to 2.4% of the Fund in December 2019, I should stress that that is all equities, including passive.

The Fund does not restrict an investment manager's stock selection by reference to these factors, except where restrictions have been put in place by Government. Instead the Fund believes in long-term investing with active engagement with company management to promote good corporate governance principles to protect and enhance shareholder value.

Finally, and perhaps most importantly, the Fund is undertaking a detailed analysis exercise to take a deeper dive in this area over Summer 2020 and is also undertaking a programme of reviewing its responsible investment beliefs with a view to revising the Funds Responsible Investment Policy later this financial year. The revised policy will be subject to full consultation with stakeholders.

Mr Potter thanked the Chairman and officers, and commented that he appreciated that it was a complex area in terms of the sums and strategies involved, but he hoped that the review would come back with a positive answer.

The Chairman thanked Mr Potter and advised that he would receive a written response within the next ten working days.

188. MINUTES OF THE PENSION FUND COMMITTEE MEETING HELD ON 14th JANUARY 2020 AND ACTION LOG

The minutes of the Pension Fund Committee meeting held on 14th January 2020 were approved as a correct record and were signed by the Chairman.

The Committee noted the Minute Action Log.

189. CAMBRIDGESHIRE PENSION FUND AUDIT PLAN - YEAR ENDED 31 MARCH 2020

The Committee considered Ernst & Young's audit plan for the Cambridgeshire Pension Fund's Statement of Accounts for the year ended 31 March 2020. Officers explained that the Audit Plan would usually be presented to the Committee in March, but this presentation had been delayed due to the Covid-19 pandemic. The main part of the Audit had been completed, and officers' view was that it had gone very well. The draft accounts were now ready, and would be presented to the Audit & Accounts Committee in July.

Mark Hodgson, representing Ernst & Young, presented the Audit Plan. He advised that due to the pandemic, the timetable for production of the accounts had been revised, and the accounts now needed to be laid by 31/08/20, and published before 30/11/20. He raised the following key points:

- In terms of the audit risks and areas of focus, the detail of the fraud risks identified were the same in any audit plan;

- There continued to be a significant risk to the Fund around the Cambridge & Counties Bank, given that it was a 'non routine investment'. All such Level 3 investments were difficult to value as these were not based on market prices. An estimate was provided in the draft accounts, but a specialist valuation would be obtained and the final audit would be based on that;

- Noted the impact on cashflow forecasts going forward, if investment balances had dropped. Pensions officers had been preparing this information.

- In terms of materiality, there was a £31.9M reporting materiality threshold (1% of the Fund's net assets), and any audit adjustments above £1.59M would be reported back to the Committee later in the year;

- Fieldwork had started in late May, and the audit had gone very well, with the majority of planned procedures already completed;

- The impact of the pandemic would need be assessed on an actuarial basis. Mr Hodgson paid tribute to the pensions team for their full cooperation, especially Ben Barlow and Fiona Coates. The final plan would be brought to future meetings of both the Pension Fund Committee and the Audit & Accounts Committee.

Councillor Shellens, speaking as Chairman of the Audit & Accounts Committee, advised that the report reflected some of the information that that Committee received, confirming the very good performance of Pensions, in particular in terms of producing straightforward, simple audits. He expressed his thanks for all the work being done.

It was resolved unanimously to:

1) Note the presentation of the audit plan by Ernst & Young, the Fund's Independent External Auditors

190. INTERNAL AUDIT REPORT 2019-2020

The Committee considered a report from the Audit and Risk Manager on the findings of Internal Audit work during 2019-20. Members were pleased to note that the Internal Audit Report assessed the processes in place as providing the highest level of assurance available, concluding that effective systems were in place, with no weaknesses identified. The Report also gave “Good” assurance on Compliance.

Members noted that two of the actions identified in the Action Plan had already been implemented. Prompt action was being taken in relation to the third action, which related to unreconciled items between Pensions and the Payroll team, and a process was in place to complete that review. Given the scale of this review, it was not possible to judge how quickly these actions would be completed.

Officers were thanked by the Committee for their hard work on this issue.

It was resolved unanimously:

1) To note the Internal Audit work during 2019-20.

191. PENSION FUND ANNUAL BUSINESS PLAN AND MEDIUM-TERM STRATEGY 2019/20 TO 2021/22

The Committee considered the Annual Business Plan and Medium-Term Strategy, which detailed the Fund’s key areas of activity over the period 2020/21 to 2022/23. It was noted that a revised version of the Business Plan had been circulated to Members, but that the changes in that document were very minor. It was stressed that the Committee was being asked not only to approve the Business Plan, but also the associated expenditure and activities. Activities had been reprofiled in the light of the Covid-19 pandemic.

It was noted that in terms of Administration, the pandemic was not having a significant impact on administration costs, but officers were unsure what the shape of the recovery would be, and the impact this would have on cashflow.

The majority of the total investment expenses were now incurred within the pool, which was the reason for the ongoing reduction in these expenses. The cost of investment consultancy under governance costs was reflected in the increased 2019/20 figure. Staff related costs were broadly the same, but because the team had started the pre-Covid period at full establishment, and there had been very little staff turnover during that period, this figure was expected to be slightly over estimate by the end of the period.

Arising from the report:

- A Member queried the relationship between the County Council overheads and LGSS administration costs, specifically as the future of LGSS was uncertain? Officers responded that some of the overheads related to LGSS and other corporate areas, and were all captured within that one line. In terms of where the Pensions team sits, Northamptonshire County Council was moving to a lead authority model, but the impact from the Committee and scheme members' perspective would be negligible, as it would be the same team, but positioned in a different structure;

- Responding to a question on the extension of the existing payroll software, Heywood Altair, it was noted that the contract included the ability to extend for a further three years from 2021. Because of the various issues currently, including the pandemic, lead authority and other IT and business system issues, it was not a good time to undertake a full tender, as at least a year would be required to transition, so it was proposed to take up that extension. The proposal to extend the contract was set out in the Business Plan, and it was confirmed that the Heywood Altair software was used by the majority of local authorities, and officers were satisfied with its functionality;

- The Committee noted that as a result of the McCloud case nationally, there may be a requirement to collect data relevant to the transitional period. This piece of work could expand considerably, and advice was being taken so that that could be properly scoped;

- Regarding OPS1 (Resolution of unprocessed leaver records), the Committee was advised that officers had sought the agreement of the Chairman and Vice Chairman to outsource a further tranche of this casework to Aon. A Member asked if it was possible to pass the cost of this on to Employers, because if all employers provided notifications on time, these costs would not be incurred. Officers advised that the cost ultimately goes back to employers through their administration costs. Going forward, there had been changes to the way the team were notified of leavers, and the new process was explained. It was noted that an exercise had been undertaken after the year end process last year, and employers had been advised what the charges would be if the team chose to recover them;

- Members noted the further work on Responsible Investing, and that this would be the theme of the virtual training day on 15th July, which would include practical examples of both impact and factor investing. This training would be followed up with a beliefs survey and then a consultation. It was confirmed that the training day on 15th July was a bespoke training session aimed at Pension Fund Committee and Local Pension Board Members from Cambridgeshire and Northamptonshire.

It was resolved unanimously:

1) approve the Business Plan and Medium-Term Strategy attached to the report.

192. GOVERNANCE AND ADMINISTRATION RISK MANAGEMENT IN LIGHT OF THE CORONAVIRUS PANDEMIC

The Committee considered a report which provided an update on the measures in place to ensure the continued governance and administration operations of the Cambridgeshire Pension Fund. The report included a risk log for the Coronavirus pandemic.

Members were reassured that since Lockdown, Pensions staff had been working from home, but there had been no interruption to how the Fund operated. The output of casework had been maintained at the same level, and there had been no significant levels of sickness.

A Member asked about the risk of fraud in relation to the deaths scheme members who were resident abroad. Officers advised that the pandemic had not added to that risk. There was a general problem of deaths abroad, as each nation had its own processes, and extensive work had been undertaken by the pension team in recent years to tighten up on these processes, including an overseas ‘proof of life exercise’ which would be repeated. The Committee was reassured that additional measures were taken with overseas pensioners, and there were only around 500 overseas pensioners in the Cambridgeshire Fund, many of whom had quite small pensions.

In terms of the level of fraud, it was noted that there were few cases and the amounts involved were negligible.

It was noted that there was one additional control added to the Risk Register, which was increased engagement with investment managers.

The Vice-Chairman thanked all officers for all their hard work in what has been a very challenging period for everybody.

It was resolved unanimously to:

> Note the report.

193. UPDATE TO FUNDING STRATEGY STATEMENT

The Committee considered a report on required changes to the Funding Strategy Statement. The Funding Strategy had to be updated to reflect the new Regulations in terms of the Administering Authority exercising discretion when an exit credit was payable, and set out the process that would be applied in those circumstances. Discussions were ongoing with legal and actuarial advisors, and the final version of the Statement would be presented to the Committee following consultation. Each case would be reviewed on an individual basis.

In response to a Member question, it was confirmed that the Statement would not include specific examples, but provide a broad outline of how the process would work to ensure that it was fair. It would also set out the process if for example, an existing employer owed money to the Fund.

It was resolved unanimously to:

> provide delegated authority to the Head of Pensions, in consultation with the Chairman of the Committee, to approve draft amendments to the Funding Strategy Statement.

194. EMPLOYER ADMISSIONS AND CESSATION REPORT

The Committee received a report on the admission of five admission bodies, and the cessation of seven bodies.

It was noted that most of the seven admission bodes related to catering and cleaning functions previously coming under the remit of the Council service (CCS), and also one Care Home. It was confirmed that the Fund had no discretion in admitting these bodies.

One Member expressed concern about the number of small employers joining the Fund, as each employer carried a cost in terms of administration. He asked if it was possible to segregate the Fund so that administration was more simplified for small employers. Officers confirmed that initial administration costs were recovered, along with proportional administration costs on an ongoing basis, and outlined the other safeguards that were in place to reduce risk for the Fund.

It was resolved unanimously to:

1. Note the admission of the following admitted bodies to the Cambridgeshire Pension Fund and approves the sealing of the admission agreements:
- ABM Catering
- Busy Bee Cleaning Services
- Easy Clean Contractors (2 admission agreements)
- Pabulum Ltd (2 admission agreements)
- Radis Community Care
- Taylor Shaw
- VHS Cleaning Service Ltd

2. Note the cessation of the following bodies from the Cambridgeshire Pension Fund:
- Advanced Cleaning Services (ACS) Ltd
- Aspens Ltd
- Chilford Hundred Trust
- Holmewood and District Internal Drainage Board
- Leisure Provisions Ltd
- P3 – People, Potential and Possibilities
- Pabulum Ltd
- Wisbech Grammar School

3. Approve, in principle, the proposal to agree a repayment plan with Wisbech Grammar school

195. EXCLUSION OF PRESS AND PUBLIC

It was resolved unanimously:

> That under Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds it contains exempt information under Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended (information which is likely to reveal

information relating to the financial or business affairs of any particular person) and that it would not be in the public interest for this information to be disclosed.

196. INVESTMENT UPDATE

The Committee received a presentation from Peter Gent of Mercer on the Fund's Investment performance.

It was resolved unanimously:

Note the report.

Chairman

Agenda Item No: 4

CAMBRIDGESHIRE PENSION FUND

LGSS

Pension Fund Committee

23rd July 2020

Report by: HEAD OF PENSIONS

Subject:	Pension Fund Statement of Accounts 2019-20
Purpose of the Report	To present the Draft Statement of Accounts of the Pension Fund for the 2019-20 financial year.
Recommendations	That the Committee: 1. Note the Statement of Accounts of the Pension Fund for the 2019-20 financial year.
Enquiries to:	Ben Barlow, Fund Accounting Manager Tel – 07896 890375 Email: BBarlow@northamptonshire.gov.uk

1. Background

1.1. The Pension Fund's Statement of Accounts (SOA) form part of the County Council's Statement of Accounts. These are audited by the County Council's external auditor EY. The auditor confirms whether, in their opinion, the SOA reflect a true and fair view of the financial position of the authority (and the Fund within it) for the financial year 1st April 2019 to 31st March 2020 and that the SOA is free from material misstatement.

1.2. The accounts are based on transactions accounted for within the Fund's financial ledger, information received from Investment Managers and the Fund's Custodian, and assumptions and estimations utilising the professional judgement of officers and Fund professional advisers in order to give a true and fair statement of the Fund's financial position.

1.3. CIPFA has issued the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20 (the Code), which governs the preparation of the financial statements for Local Government Pension Scheme funds. There were no changes in the Code that impacted on the Funds SOA. The latest CIPFA template is used each year to ensure that the reporting meets the requirements of the Code and is compliant with International Financial Reporting Standards (IFRS).

1.4. The publication of the Accounts is an essential feature of public accountability and stewardship as it provides information on how the Fund has used the members' funds for which it is responsible.

2. Highlights

2.1. The Fund Account and the Net Asset Statement provide a summary of the financial activity with the notes to the accounts providing further information. A copy of the SOA can be found at **Appendix A**.

2.2. The net decrease for the year was £177.9m, with the Fund's net assets falling to £3,015m.

2.3. Contribution receipts increased slightly from £124.5m to £126.5m. The increase in contributions payments reflects the growth in the number of active members during the year.

2.4. Benefit payments have increased to £107.9m from £106.3m. The increase in pension payments reflects the growth in the number of pensioners during the year.

2.5. Administration expenses have increase during the year due to expenditure relating to 2018-19 being paid in 2019-20. See below true costs of administration for 2018-19 and 2019-20. Oversight and governance costs have increased due to the Fund compliance with the CIPFA Management Expenses guidance. Classifying all actuary, legal and consultancy costs within Oversight and Governance costs instead of previous classifications across Administrative costs and Investment management expenses.

	2018-19	2019-20
Administrative Costs	2,018	3,415
2018-19 expenditure	600	(600)
Total	**2,618**	**2,715**

2.6. The one year investment return as at 31st March 2020 was a net market loss of £174.1m. The investment return for the Fund over the financial year was -5.7% compared to the Fund's weighted benchmark return of -3.3% reflecting the financial situation brought about by the COVID-19 pandemic and the active investment management decisions made by the Fund.

2.7. Investment Income decreased from £45.5m in 2018-19 to £34.4m in 2019-18 mainly from equities and pooled investments.

2.8. Investment liabilities have increased following the implementation of the equity protection strategy.

2.9. The number of active employers decreased by 57 to 197 at 31st March 2020. Multiple academy trusts are counted as a single employer to reflect the contractual relationship between the Fund and the Trust.

3. Findings and Feedback from External Audit Fieldwork.

3.1. EY have completed their audit fieldwork of the Pension Fund Statement of Accounts but have not yet fully completed their review work. The Fund does not expect there to be any issues on the draft ISA260 when issued.

3.2. The Final version of the Annual Report and Statement of Accounts will be published on the Fund's website and circulated to members.

4. Recommendations

4.1. That the Pension Committee:

4.1.1. Note the Statement of Accounts of the Pension Fund for the 2019-20 financial year.

5. Relevant Pension Fund Objectives

Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance.
Manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers.
Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment.
Continually monitor and measure clearly articulated objectives through business planning. Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate.
Provide scheme members with up to date information about the scheme in order that they can make informed decisions about their benefits.
Seek and review regular feedback from all stakeholders and use the feedback appropriately to shape the administration of the Fund.

6. Risk Management

6.1. The mitigated risk associated with this proposal has been captured in the Fund's risk register as detailed below -

Risk	Risk mitigated	Residual risk
3	Contributions to the Fund are not received on the correct date and/or for the correct amount	Amber
4	Fund assets are not sufficient to meet obligations and liabilities.	Amber
5	Information may not be provided to stakeholders as required	Green
7	Those charged with governance are unable to fulfil their responsibilities effectively	Green
11	Custody arrangements may not be sufficient to safeguard Pension Fund assets.	Green
13	Failure to administer the scheme in line with regulations and guidance.	Green
17	Pension Fund investments may not be accurately valued.	Green
23	Investment decisions and portfolio management may not achieve the return required or be performed in accordance with instructions provided.	Green

6.2. The Fund's full risk register can be found on the Fund's website at the following link:

https://pensions.cambridgeshire.gov.uk/app/uploads/2019/05/RiskRegisterCPF.May2019.pdf

7. Finance & Resources Implications

7.1. There are no additional finance implications as a result of the recommendations set out in this paper.

8. Communication Implications

8.1. The Regulations determine that the accounts and other related documents have to be made available for public inspection. The statutory audit deadlines have been extended due to COVID, authorities must commence the public inspection period on or before the first working day of September.

8.2. The statutory date for publication of the final set of the County Council's Statement of Accounts is the end of November (original date end of July), and in accordance with recognised practice, the Council considers its Statement of Accounts to be published from the date that a final certified copy is made available via the Council's website.

8.3. The Statutory date for publication of the Pension Funds Annual Report is 1st December.

9. Legal Implications

9.1. There are no legal implications as a result of the recommendations set out in this paper.

10. Consultation with Key Advisors

10.1. The Pension Fund Accounts were produced utilising information and advice provided by Investment Managers, the Fund's Custodian Northern Trust and the Fund's Actuary, Hymans Robertson.

11. Alternative Options Considered

11.1. The Pension Fund Annual Report and Statement of Accounts is a statutory requirement with a prescribed structure, which has been complied with.

12. Background Papers

12.1. The Pension Fund Accounts are supported by a detailed set of working papers that are subject to examination as part of the External Audit review.

13. Appendices

13.1. Appendix A – Statement of Accounts.

Checklist of Key Approvals	
Is this decision included in the Business Plan?	Not applicable.
Will further decisions be required? If so, please outline the timetable here	Not applicable.
Is this report proposing an amendment to the budget and/or policy framework?	No.
Has this report been cleared by the Head of Pensions?	Yes. Mark Whitby
Has this report been cleared by the Section 151 Officer / Director of Finance?	Yes. Sarah Heywood
Has the Chairman of the Pension Fund Board been consulted?	Yes. Cllr Rogers
Has this report been cleared by Legal Services?	Yes. Fiona McMillan

Fund Account

31-Mar-19 £000		Notes	31-Mar-20 £000
	Dealings with members, employers and others directly involved in the fund:		
124,572	Contributions	7	126,471
4,882	Transfers in from other pension funds	8	6,704
129,454			**133,175**
(106,259)	Benefits	9	(107,863)
(11,171)	Payments to and on account of leavers	10	(10,119)
(117,430)			**(117,982)**
12,024	**Net additions/(withdrawals) from dealing with members**		**15,193**
(16,889)	Management Expenses	11	(19,004)
(4,865)	**Net additions/(withdrawals) including fund management expenses**		**(3,811)**
	Returns on investments:		
45,493	Investment income	13	34,447
(85)	Taxes on income		(2)
182,745	Profit and (losses) on disposal of investments and changes in the value of investments	14a, 17b	(208,571)
228,153	**Net return on investments**		**(174,126)**
223,288	**Net increase/(decrease) in the net assets available for benefits during the year**		**(177,937)**
2,969,306	Opening net assets of the scheme		3,192,594
3,192,594	**Closing net assets of the scheme**		**3,014,657**

Notes on pages 47 to 80 form part of the financial statements.

Net Asset Statement

31-Mar-19 £000		Notes	31-Mar-20 £000
3,177,716	Investment assets		3,098,583
(345)	Investment liabilities		(101,964)
3,177,371	**Total net investments**	14	**2,996,619**
18,068	Current assets	21	27,209
(3,477)	Current liabilities	22	(9,171)
14,591	**Net Current Assets**		**18,038**
632	Non-current assets		-
3,192,594	**Net assets of the Fund available to fund benefits at the end of the reporting period**	17a	**3,014,657**

Notes on pages 49 to 80 form part of the financial statements.

Note: The Fund's financial statements do not take account of the liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 20.

Notes to the Pension Fund Accounts

1. DESCRIPTION OF THE FUND

The Cambridgeshire County Council Pension Fund is part of the Local Government Pension Scheme (LGPS) and is administered by Cambridgeshire County Council. The County Council is the reporting entity for this Pension Fund. The following description of the Fund is a summary only. For more detail, reference should be made to the Annual Report 2019-20 on pages 1 to 46 and the underlying statutory powers underpinning the scheme.

General

The Fund is governed by the Public Services Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

- the LGPS Regulations 2013 (as amended);
- the LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 (as amended);
- the LGPS (Management and Investment of Funds) Regulations 2016.

The Fund is a contributory defined benefit pension scheme administered by Cambridgeshire County Council to provide pensions and other benefits for pensionable employees of Cambridgeshire County Council, the district councils in Cambridgeshire, and a range of other scheduled and admitted bodies within the county area. Teachers, Police Officers and Firefighters are not included as they come within other national pension schemes. The Fund is overseen by the Cambridgeshire Pension Fund Committee, which is a committee of Cambridgeshire County Council.

Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Organisations participating in the Cambridgeshire Pension Fund include:

- Scheduled Bodies - local authorities and similar bodies whose staff are automatically entitled to be members of the Fund;

- Admitted Bodies - other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

As at 31 March 2020 there are 224 (2019: 254) active employers within the Cambridgeshire Pension Fund, including the County Council itself.

	31-Mar-19	31-Mar-20
Number of employers with active members	254	197

The Fund has over 85,000 individual members, as detailed below:

	31-Mar-19	31-Mar-20
Number of employees in scheme:		
County council	9,829	10,550
Other employers	19,147	19,872
Total	**28,976**	**30,422**
Number of Pensioners:		
County council	8,410	8,724
Other employers	10,365	10,916
Total	**18,775**	**19,640**
Deferred pensioners:		
County council	12,719	13,473
Other employers	14,940	15,986
Total	**27,659**	**29,459**
Undecided Leavers:		
County council	3,233	2,400
Other employers	4,266	3,844
Total	**7,499**	**6,244**
Total members	**82,909**	**85,765**

Notes to the Pension Fund Accounts (continued)

Funding

Benefits are funded by contributions and investment earnings. Currently the level of contribution income is sufficient to fund regular benefit payments. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ended 31 March 2020. Employers' contributions are set as part of the triennial actuarial funding valuation. The last such valuation was at 31 March 2019. Employers' contributions comprise a percentage rate on active payroll between 5.7% and 31.7% and deficit payments of fixed cash amounts set for each employer as part of the triennial funding valuation.

Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service 1 April 2008 to 31 March 2014
Pension	Each year worked is worth 1/80 x final pensionable salary.	Each year worked is worth 1/60 x final pensionable salary.
Lump Sum	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

Career Average Revalued Earnings (CARE)

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based upon their pensionable pay in that year at an accrual rate of 1/49th or 1/98th for those members who have taken up the 50/50 option and pay proportionately lower contributions. Accrued pension is updated annually in line with the Consumer Price Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the Cambridgeshire Pension Fund scheme handbook available from LGSS Pension Services based at One Angel Square, Angel Street, Northampton NN1 1ED. The Full Guide can also be found in the member section on the Pension's Fund website.

https://lgssmember.pensiondetails.co.uk/

Notes to the Pension Fund Accounts (continued)

2. BASIS OF PREPARATION

The Statement of Accounts summarises the Fund's transactions for the 2019-20 financial year and its position at year-end as at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019-20 which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

Paragraph 3.3.1.2. of the Code requires disclosure of any accounting standards issued but not yet adopted. No such accounting standards have been identified for 2019-20.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the net assets statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The pension fund has opted to disclose this information in Note 20. The Accounts have been prepared on a going concern basis.

At the date of authorisation of the financial statements, the Fund does not consider that any of the matters discussed above give rise to material uncertainties that may cast significant doubt about the Fund's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Cambridgeshire County Council remains satisfied the Fund that it administers continues to be a going concern.

The Pension Fund's latest actuarial valuation, as at 31 March 2019, showed it to be 100% funded – a significant increase from the position 3 years prior of 78.4%.

The impact of the Coronavirus pandemic on investment markets has affected the value of the Fund to 31 March 2020. The Fund's investment return for 2019-20 was -5.7% pa, less than the actuary's target return for the Fund of +4.1% pa.

The actuarial valuation includes the Rates and Adjustment certificate detailing the contributions to the Pension Fund that participating employers are expected to make. It remains the Fund's expectation that these will be paid as planned. To date no employers have enquired about deferring their contribution payments because of the Coronavirus pandemic.

The vast majority of employers in the pension scheme (66.5% of the Fund by active membership are scheduled bodies including Further and Higher Education employers) have secure public sector funding, and therefore there should be no doubt in their ability to continue to make their pension contributions. In addition, following the latest triennial valuation, the Pension Fund has allowed employers to pay their deficit contributions in advance for either 1 or 3 years, as at May 2020 two prepayments have been made.

Following the latest actuarial valuation and schedule of employer contribution payments, the Pension Fund has reviewed its cashflow forecast. The Fund should have sufficient cash for the next 3 years (excluding the receipt of any employer contributions paid in advance on 1 April 2021) to meet its obligations to pay pensions without selling any investments. Should investments be required to be sold as a result of negative cashflows or employers being unable to pay their contributions (which is not expected) the Pension Fund would have ready access to cash as 72% of the Fund could be sold at short notice from the Level 1 and Level 2 investments. For further information please refer to the Fund's Cash Management Strategy.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due date on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Notes to the Pension Fund Accounts (continued)

Contribution Income (continued)

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Transfers to and from Other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see Notes 8 and 10).

Individual transfers in/out are accounted for on a cash basis.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on an accruals basis and are included in Transfers In (see Note 8). Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Investment Income

i) Interest income

Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs (where material) or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iv) Movement in the net market value of investments

Changes in the net market value of investments are recognised as income or expense and comprise all realised and unrealised profits/losses during the year.

Stock lending

Stock lending income is recognised in the Fund Account as it accrues. Stock lending income represents the transfer of securities by the Pension Fund to an approved counterparty ("Borrower"), against a receipt of collateral (non-cash), for a fee, subject to the obligation by that same counterparty to redeliver the same or similar securities back to the Lender at a future date. Securities on loan remain assets of the Fund and are recorded in the net assets statement at fair value.

Notes to the Pension Fund Accounts (continued)

Fund Account – Expense Items

Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities and paid in the following month.

Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

Management Expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Fund discloses its pension fund management expenses in accordance with CIPFA's Accounting for Local Government Pension Scheme Management Expenses (2016).

Administrative Expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund in accordance with Council policy.

Oversight and Governance Costs

All oversight and governance expenses are accounted for on an accruals basis.

All staff costs associated with governance and oversight are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund in accordance with Council policy.

Investment Management Expenses

Investment Management expenses are accounted for on an accruals basis.

Fees of external Investment Managers and the Custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Where an Investment Manager's fee note has not been received by the year end date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the Fund Account. In 2019-20, £406k of fees are based upon such estimates (2018-19: £1.6m). In addition, manager fees deducted from pooled funds of £10.6m (2018-19: £7.2m) are estimated based upon information received from fund managers.

The cost of obtaining investment advice from external consultants is charged direct to the Fund. All staff costs associated with investment activity are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged to the Fund.

Notes to the Pension Fund Accounts (continued)

Net Assets Statement

Financial Assets

Financial assets are included in the Net Assets Statement on a fair value basis, except for loans and receivables.

Loans and receivables are assets for which the amounts receivable are fixed and determinable and where the Fund has not designated the asset at fair value through profit and loss. This includes contributions owing from employers and cash deposits. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost. A financial asset is recognised in the Net Assets Statement on the date the Fund becomes party to the contractual acquisition of the asset.

Investment assets, other than cash held by Investment Managers on the Fund's behalf, are initially recognised at fair value and are subsequently measured at fair value with gains and losses recognised in the Fund Account. The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

Foreign Currency Transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see Note 15).

Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Financial Liabilities

The Fund initially recognises financial liabilities at fair value and subsequently measure them at amortised cost. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability.

Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a annual basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (see Note 20).

Additional Voluntary Contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund's AVC providers are Prudential and Utmost Life. AVCs are deducted from the individual member's pay and paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts, in accordance with section 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, but are disclosed as a note only (see Note 23).

Notes to the Pension Fund Accounts (continued)

Contingent Assets and Liabilities

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of a narrative in the notes.

Accounting Standards Issued, not Adopted

The Code of Practice on Local Authority Accounting in the United Kingdom 2019 – 20 requires the disclosure of information relating to the expected impact of changes that will be required by a new standard that has been introduced but not yet adopted. There are no such standards which would materially impact the Fund.

4. CRITICAL JUDGEMENT IN APPLYING ACCOUNTING POLICIES

Pension Fund Liability

The net Pension Fund liability is recalculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines.

The estimated liability is subject to significant variances based on changes to the underlying assumptions which are agreed with the actuary and have been summarised in Note 19.

Actuarial revaluations are used to set future contribution rates and underpin the Fund's most significant Investment Management policies, for example in terms of the balance struck between longer term investment growth and short-term investment yield/return.

5. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the Balance Sheet date and the amounts reported for the revenues and expenses during the year.

Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the Financial Statements as 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

- **Actuarial Present Value of Promised Retirement Benefits Uncertainties**:

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rates at which salaries and pensions are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets. An independent firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied. The actuary has included the McCloud judgement within their calculation shown in Note 20.

- **Effect if Actual Results Differ from Assumptions:**

The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% decrease in the discount rate assumption would result in an increase in the pension liability of £443 million. A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £33 million, and a 1 year increase in assumed life expectancy would increase the liability by approximately 3-5%. Although the example above is based on an increase, a decrease to discount rate and assumed life expectancy could also occur.

Notes to the Pension Fund Accounts (continued)

- **Cambridge and Counties Bank**

Uncertainties: Cambridge and Counties Bank is not publicly listed and as such there is a degree of estimation involved in the valuation. The Pension Fund has appointed an independent, professional valuer to advise a suitable valuation. The Fund's investment is valued on a market based approach with reference to price/earnings and price to book of comparable public companies.

Effect if actual results differ from assumptions: The investment in the financial statements is £58m. There is a risk that this investment may be under or overstated in the accounts. As set out in the independent, professional valuation report, the valuation of the Cambridge and Counties Bank is in the range of £56.6m to £59.4m. The mid-point of this valuation range has been applied within the Fund's accounts.

- **Other Private Equity and Infrastructure**

Uncertainties: All other private equity and infrastructure investments are valued at fair value. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation. There is a higher level of uncertainty for Private Equity as a result of the Covid-19 pandemic. The Fund is monitoring the situation closely and liaising regularly with its investment adviser to consider any necessary actions to respond. See Note 16a.

Effect if actual results differ from assumptions: Total private equity and infrastructure investments (excluding Cambridge and Counties Bank – see above) at fair value in the financial statements are £459.8m. There is a risk that this investment may be under or overstated in the accounts. Note 18 gives a price sensitivity of Alternative investments of 23.2%, which indicates that other private equity and infrastructure values may range from £566.5m to £353.1m.

6. EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to year end, there has been a recovery in the markets following the Covid-19 pandemic however there is continuing volatility in the market. The Fund is monitoring the situation closely and liaising regularly with its investment adviser to consider any necessary actions to respond.

7. CONTRIBUTIONS RECEIVABLE

By Category:

31-Mar-19 £000		31-Mar-20 £000
26,427	**Employees' contributions**	**27,710**
	Employers' contributions:	
84,341	Normal contributions	86,404
13,804	Deficit recovery contributions	12,357
98,145	**Total employers' contributions**	**98,761**
124,572		**126,471**

By Authority:

31-Mar-19 £000		31-Mar-20 £000
27,027	Administering Authority	27,237
91,122	Scheduled Bodies	92,321
6,423	Admitted Bodies	6,913
124,572		**126,471**

8. TRANSFERS IN FROM OTHER PENSION FUNDS

31-Mar-19 £000		31-Mar-20 £000
4,882	Individual transfers	6,704
-	Group transfers	-
4,882		**6,704**

Notes to the Pension Fund Accounts (continued)

9. BENEFITS PAYABLE

By category:

31-Mar-19 £000		31-Mar-20 £000
84,204	Pensions	88,520
19,244	Commutation and lump sum retirement benefits	16,162
2,811	Lump sum death benefits	3,181
106,259		**107,863**

By authority:

31-Mar-19 £000		31-Mar-20 £000
36,750	Administering Authority	35,395
60,117	Scheduled Bodies	63,221
9,392	Admitted Bodies	9,247
106,259		**107,863**

10. PAYMENTS TO AND ON ACCOUNT OF LEAVERS

31-Mar-19 £000		31-Mar-20 £000
400	Refunds to members leaving service	248
4,732	Group transfers	-
6,039	Individual transfers	9,871
11,171		**10,119**

11. MANAGEMENT EXPENSES

31-Mar-19 £000		31-Mar-20 £000
2,018	Administrative costs	3,415
14,544	Investment management expenses	14,673
327	Oversight and governance costs*	916
16,889		**19,004**

*Fees payable to External Auditors, included within Oversight and Governance costs were £17k during the year (2018-19 £17k). Administration expenses have increase during the year due to expenditure relating to 2018-19 being paid in 2019-20

12. INVESTMENT MANAGEMENT EXPENSES

31-Mar-19 £000		31-Mar-20 £000
11,904	Management fees	12,199
1,068	Performance related management fees	1,175
606	Transaction costs	456
966	Other costs	843
14,544		**14,673**

13. INVESTMENT INCOME

31-Mar-19 £000		31-Mar-20 £000
424	Income from bonds	494
18,775	Income from equities	14,865
14,461	Pooled investments – unit trusts and other managed funds	4,807
7,277	Pooled Property Investments	8,000
4,001	Private equity/infrastructure income	5,649
360	Interest on cash deposits	561
195	Other – securities lending income	71
45,493		**34,447**

Notes to the Pension Fund Accounts (continued)

14. INVESTMENTS

31-Mar-19		31-Mar-20
£000		£000
	Investment assets	
79,206	Bonds	155,686
377,322	Equities	1
2,086,961	Pooled investments	2,029,182
236,858	Pooled property investments	225,063
363,874	Private equity/infrastructure	517,798
27,593	Cash deposits	31,585
-	Derivatives Contracts: Options	138,546
3,992	Investment income due	722
1,910	Amounts receivable for sales	-
3,177,716	**Total investment assets**	**3,098,583**
	Investment liabilities	
-	Derivatives Contracts: Options	(101,964)
(345)	Amounts payable for purchases	-
(345)	**Total investment liabilities**	**(101,964)**
3,177,371	**Net investment assets**	**2,996,619**

Notes to the Pension Fund Accounts (continued)

14(a). RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 01-Apr-19	Purchases during the year and derivative payments*	Sales during the year and derivative receipts*	Change in market value during the year	Market value 31-Mar-20
	£000	£000	£000	£000	£000
Bonds	79,206	76,002	(1,127)	1,605	**155,686**
Equities	377,322	589,073	(928,370)	(38,024)	**1**
Pooled investments	2,086,961	521,533	(353,894)	(225,418)	**2,029,182**
Pooled property investments	236,858	11,362	(16,219)	(6,938)	**225,063**
Private equity/infrastructure	363,874	175,160	(43,927)	22,691	**517,798**
	3,144,221	**1,373,130**	**(1,343,537)**	**(246,084)**	**2,927,730**
Derivative contracts:					
• Forward Currency Contracts	-	3,846	(316)	(3,530)	-
• Purchased/written options	-	-	-	36,582	**36,582**
	3,144,221	**1,376,976**	**(1,343,853)**	**(213,032)**	**2,964,312**
Other investment balances:*					
· Cash deposits	27,593			4,301	**31,585**
· Investment income due	3,992			-	-
· Amount receivable for sales	1,910			-	**722**
· Spot FX contracts	-			160	-
· Amounts payable for purchases of investments	(345)			-	-
Net investment assets*	**3,177,371**			**(208,571)**	**2,996,619**

* Other investment balances and Net investment assets do not add across as purchases, sales and other movements (£0.8m) are not disclosed here, in accordance with CIPFA guidance

Notes to the Pension Fund Accounts (continued)

14(a) RECONCILIATION OF MOVEMENTS IN INVESTMENTS AND DERIVATIVES

	Market value 01-Apr-18 £000	Purchases during the year and derivative payments* £000	Sales during the year and derivative receipts* £000	Change in market value during the year £000	Market value 31-Mar-19 £000
Bonds	**74,578**	702	-	3,926	**79,206**
Equities	**371,765**	66,282	(63,531)	2,806	**377,322**
Pooled investments	**1,953,899**	1,310,227	(1,316,014)	138,849	**2,086,961**
Pooled property investments	**206,671**	45,324	(21,495)	6,358	**236,858**
Private equity/infrastructure	**274,393**	95,027	(35,645)	30,099	**363,874**
	2,881,306	**1,517,562**	**(1,436,685)**	**182,038**	**3,144,221**
Derivative contracts:					
• Forward Currency Contracts	-	6	(15)	9	-
	2,881,306	**1,517,568**	**(1,436,700)**	**182,047**	**3,144,221**
Other investment balances:*					
· Cash deposits	31,191			723	**27,593**
· Investment income due	3,535			-	**3,992**
· Amount receivable for sales	-			-	**1,910**
· Spot FX contracts	-			(25)	**-**
· Amounts payable for purchases of investments	-			-	(345)
Net investment assets*	**2,916,032**			**182,745**	**3,177,371**

* Other Investment balances and Net investment assets do not add across as purchases, sales and other movements (£1.6m) are not disclosed here, in accordance with CIPFA guidance.

Notes to the Pension Fund Accounts (continued)

14(b). ANALYSIS OF INVESTMENTS

31-Mar-19 £000		31-Mar-20 £000
	Bonds	
79,206	**UK** - Public sector quoted	155,686
79,206		**155,686**
	Equities	
357,667	**UK -** Quoted	1
19,655	**Overseas -** Quoted	-
377,322		**1**
	Pooled funds – additional analysis	
70,173	**UK -** Fixed income	-
70,343	**UK -** Equity	73,090
226,543	**Overseas -** Fixed income	203,953
1,718,324	**Overseas -** Equity	1,749,717
1,578	**Overseas -** Cash Fund	2,422
2,086,961		**2,029,182**
236,858	Pooled property investments	225,063
363,874	Private equity/ infrastructure	517,798
600,732		**742,861**
27,593	Cash deposits	31,585
3,992	Investment income due	722
-	Derivative assets	138,546
1,910	Amounts receivable from sales	-
33,495		**170,853**
3,177,716	**Total investment assets**	**3,098,583**
	Investment liabilities	
(345)	Amounts payable for purchases	-
-	Derivative liabilities	(101,964)
(345)	**Total investment liabilities**	(101,964)
3,177,371	**Net investment assets**	**2,996,619**

Notes to the Pension Fund Accounts (continued)

14(c). INVESTMENTS ANALYSED BY FUND MANAGER

Market value 31-Mar-19 £000	% of net investment assets		Market value 31-Mar-20 £000	% of net investment assets
Investments managed under Pool Governance:				
498,776	15.7	Link Fund Solutions	969,299	32.4
765,050	24.1	UBS Global Asset Management	853,507	28.5
1,263,826	**39.8**	**Total Investments managed under Pool Governance**	**1,822,806**	**60.9**
Investments managed outside Pool Governance:				
80,458	2.5	Adams Street Partners	95,975	3.2
12,447	0.4	Allianz Global Investors	19,719	0.7
19,209	0.6	AMP Capital	41,117	1.4
81,100	2.6	Cambridge and Counties Bank	58,000	1.9
14,913	0.5	Cambridge Building Society	15,000	0.5
33,341	1.0	Equitix Investment Management	37,172	1.2
-	-	Foresight Group	4,972	0.2
58,546	1.8	HarbourVest Partners (UK)	72,709	2.4
-	-	IFM Infrastructure	60,937	2.0
524,841	16.5	JO Hambro Capital Management	-	-
60,888	1.9	M&G Investments	55,411	1.8
9,759	0.3	M&G Real Estate	55,048	1.8
37,370	1.2	Partners Group (UK)	42,816	1.4
-	-	River and Mercantile Group	192,269	6.4
946,737	29.9	Schroders Investment Management	373,605	12.5
16,742	0.5	UBS Infrastructure	14,331	0.3
17,194	0.5	Cash with custodian	34,732	0.7
1,913,545	**60.2**	**Total Investments managed outside Pool Governance**	**1,173,813**	**38.4**
3,177,371	**100.0**	**Net investment assets**	**2,996,619**	**99.3**

All the above companies are registered in the United Kingdom.

Notes to the Pension Fund Accounts (continued)

The following investments represent more than 5% of the net assets of the scheme.

Security	31-Mar-19	% of total fund	31-Mar-20	% of total fund
	£000	%	£000	%
LF ACCESS Global Stock - Dodge and Cox	498,776	15.6	**316,598**	**10.5**
J O Hambro Capital Management LTD Global Select Fund	509,096	15.9	**-**	**-**
LF ACCESS Global Equity - J O Hambro	-	-	**386,254**	**12.8**
LF ACCESS Global Equity - Longview	-	-	**266,447**	**-**
UBS Asset Management Life USA Equity Tracker Hedged	-	-	**186,591**	**6.2**
UBS Global Asset Life North America Equity Tracker	180,827	5.7	**-**	**-**
Schroder Investment Management Strategic Bond	165,656	5.2	**148,542**	**4.9**
	1,354,355		**1,304,432**	

14(d). STOCK LENDING

The Fund's Investment Strategy sets the parameters for the Fund's stock-lending programme. At 31 March 2020, the value of quoted equities on loan was nil (31 March 2019: £66.2m). The Fund held fewer assets available for lending at 31 March 2020, as the Fund has transitioned its segregated holdings into pooled funds in the ACCESS pool.

15. ANALYSIS OF DERIVATIVES

Objectives and policies for holding derivatives

Most of the holding in derivatives is to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives may be used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement between the Fund and the various investment managers.

• Futures

There were no outstanding exchange traded future contracts at 31 March 2020 or 31 March 2019.

• Forward foreign currency

The Fund's Investment Managers may enter into forward foreign currency contracts to take advantage of current exchange rates in order to maintain appropriate diversification, take advantage of overseas investment returns and reduce the volatility associated with fluctuating currency rates.

There were no open forward currency contracts at 31 March 2020 or 31 March 2019. There is no specified requirement to use currency hedging within the Fund's Investment Management Agreements. Instead, the Fund managers use their discretion as to whether or not any currency hedging should be used to mitigate any potential risk.

Notes to the Pension Fund Accounts (continued)

•Options

In order to minimize the risk of loss of value through adverse equity price movements, equity option contracts can protect the Fund from falls in value in its main investment markets, principally the UK, USA and Europe.

Investment underlying option contract	Expires	Put/Call	Notional Holdings	31-Mar-19	Notional Holdings	31-Mar-20
Assets				**£000**		**£000**
Equity purchased	Over three months	Put	-	-	172,896	138,545
Total assets						**138,545**
Liabilities						
Equity written	Over three months	Put	-	-	(222,053)	(98,506)
Equity written	Over three months	Call	-	-	(168,826)	(3,457)
Total liabilities						(101,963)
Net purchased/written options						**36,582**

Notes to the Pension Fund Accounts (continued)

16. FAIR VALUE

16a. Fair value hierarchy

Valuation of Financial Instruments Carried at Fair Value
Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur. The Fund has adopted the classification guidelines recommended in the Practical Guidelines on Investment Disclosures (PRAG/Investment Association, 2016).

Level 1 Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index-linked securities and unit trusts.

Level 2 Assets and liabilities at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value. The price used is based upon inputs from observable market data.

Level 3 Assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the Cambridgeshire Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines 2015, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate. There has been no change in the valuation techniques used for individual investments during the year.

The following tables provides an analysis of the financial assets and liabilities of the Pension Fund grouped into levels 1 to 3, based on the level at which the fair value is observable:

Values at 31 March 2020	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	2,423	2,376,040	687,813	**3,066,276**
Total financial assets	**2,423**	**2,376,040**	**687,813**	**3,066,276**

Values at 31 March 2019	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	458,106	2,163,820	522,295	**3,144,221**
Total financial assets	**458,106**	**2,163,820**	**522,295**	**3,144,221**

Notes to the Pension Fund Accounts (continued)

All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.
The fair valuation of each class of investment asset is set out below.

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market quoted investments	Level 1	Published bid market price ruling on the final day of the account period	Not required	Not required
Quoted bonds	Level1	Fixed interest securities valued at a market value based on current yields	Not required	Not required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Pooled investments – not exchange traded open ended funds	Level 2	Closing bid and offer prices are published. Closing single price where a single price is published	NAV based pricing set on a forward pricing basis.	Not required
Pooled investments – not exchange traded closed ended funds	Level 3	Closing bid and offer prices are published. Closing single price where a single price is published	NAV based pricing set on a forward pricing basis.	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date and lack of liquidity.
Private equity and infrastructure – equity	Level 3	Comparable valuation of similar companies	Price/Earnings or EBITDA multiple	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date.
Private equity and infrastructure – other	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	Share of net assets	Valuations could be affected by material events occurring between the date of the financial statements provided and the Fund's own reporting date, and by any differences between audited and unaudited accounts.

Notes to the Pension Fund Accounts (continued)

Sensitivity of assets valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investment advisers, the Fund has determined that the valuation methods described above are likely to be accurate within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

Asset Type	Market Value as at 31-Mar-20 £000	Assessed valuation range (+/-)	Value on Increase £000	Value on Decrease £000
Private Equity	462,750	23.2%	570,108	355,392
Property	225,063	14.2%	257,022	193,104
Total Assets	**687,813**		**827,130**	**548,496**

16(b) RECONCILIATION OF FAIR VALUE MEASUREMENTS WITHIN LEVEL 3

Period 2019-20	Market value 01-Apr-19 £000	Transfers in/out of Level 3 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Unrealised gains/(losses) £000	Realised gains/(losses) £000	Market value 31-Mar-20 £000
Pooled property investments	168,180	68,678	11,363	(16,219)	(11,379)	4,440	225,063
Private equity and infrastructure - equity	81,100	-	-	-	(23,100)	-	58,000
Private equity and infrastructure - other	273,015	-	129,576	(43,585)	30,549	15,195	404,750
Total	**522,295**	**68,678**	**140,939**	**(59,804)**	**(3,930)**	**19,635**	**687,813**

Reclassification of Pooled property investments from Level 2 to Level 3 in agreement with the fair value techniques for property.

17. FINANCIAL INSTRUMENTS

17a. CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following table analyses the carrying amounts of financial assets and liabilities by category and net assets statement heading.
No financial assets were reclassified during the year.

31-Mar-19				31-Mar-20		
Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost		Fair value through profit and loss	Assets at amortised cost	Liabilities at amortised cost
£000	£000	£000		£000	£000	£000
			Financial assets			
79,206	-	-	Bonds	155,686	-	-
377,322	-	-	Equities	1	-	-
2,086,961	-	-	Pooled investments	2,029,182	-	-
236,858	-	-	Pooled property investments	225,063	-	-
363,874	-	-	Private equity/Infrastructure	517,798	-	-
-	-	-	Derivative contracts	138,546	-	-
-	32,300	-	Cash	-	40,661	-
-	5,902	-	Other investment balances	-	722	-
-	13,993	-	Debtors	-	18,133	-
3,144,221	**52,195**	**-**		**3,066,276**	**59,516**	**-**
			Financial liabilities			
-	-	-	Derivative contracts	-	-	(101,964)
-	-	(345)	Other investment balances	-	-	-
-	-	(3,477)	Creditors	-	-	(9,171)
-	**-**	**(3,822)**		**-**	**-**	**(111,135)**
3,144,221	**52,195**	**(3,822)**		**3,066,276**	**59,516**	**(111,135)**
		3,192,594	**Total**			**3,014,657**

17b. NET GAINS AND LOSSES ON FINANCIAL INSTRUMENTS

31-Mar-19 £000		31-Mar-20 £000
	Financial assets:	
182,038	Fair value through profit and loss	(246,084)
723	Loans and receivables	4,461
	Financial liabilities:	
9	Fair value through profit and loss	33,052
(25)	Loans and receivables	-
-	Financial liabilities measured at amortised cost	-
182,745	**Total gains/(losses)**	**(208,571)**

18. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows. The Fund manages these investment risks as part of its overall Pension Fund Risk Management Programme.

Responsibility for the Fund's Risk Management Strategy rests with the Pension Fund Committee. Risk management policies are established to identify and analyse the risks faced by the Council's pensions operations. Policies are reviewed regularly to reflect changes in activity and in market conditions.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's Risk Management Strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment advisers undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

•the exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels

•specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. The Fund entered into derivative contracts to manage the overweight in equities compared to the strategic allocation.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund’s investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund Investment Strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund’s investment advisers, the Council has determined that the following movements in market price risk would have reasonably been possible for the 2019-20 reporting period.

The potential price changes disclosed above are broadly consistent with one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment adviser’s most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Asset Type	Potential Market Movement +/- (%p.a.)
UK equities	27.5%
Overseas equities	28.0%
Global pooled equities	28.0%
Index Linked Bonds	7.4%
Pooled fixed interest bonds	9.8%
Property	14.2%
Alternatives	23.2%
Cash and Other investment balances	0.3%

Notes to the Pension Fund Accounts (continued)

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits would have been as follows:

31-Mar-20 Asset Type	Value as at 31-Mar-20 £000	% (rounded) Change	Value on Increase £000	Value on Decrease £000
UK equities	**73,091**	27.5%	93,191	52,991
Global pooled equities	**1,749,717**	28.0%	2,239,637	1,259,796
Index Linked Bonds	**155,686**	7.4%	167,207	144,165
Pooled fixed interest bonds	**203,953**	9.8%	223,941	183,966
Property	**225,063**	14.2%	257,022	193,104
Alternatives	**517,798**	23.2%	638,067	397,528
Cash and Other investment balances	**71,311**	0.3%	71,525	71,097
Total Assets	**2,996,619**		**3,690,590**	**2,302,647**

31-Mar-19 Asset Type	Value as at 31-Mar-19 £000	% (rounded) Change	Value on Increase £000	Value on Decrease £000
UK equities	**428,009**	16.6%	499,059	356,960
Overseas equities	**19,655**	16.9%	22,978	16,333
Global pooled equities	**1,718,325**	16.9%	2,008,723	1,427,928
Index Linked Bonds	**79,206**	9.2%	86,494	71,919
Pooled fixed interest bonds	**296,716**	10.5%	327,872	265,561
Property	**236,858**	14.3%	270,730	202,987
Alternatives	**363,874**	24.7%	453,752	273,997
Cash and Other investment balances	**34,728**	0.5%	34,903	34,554
Total Assets	**3,177,371**		**3,704,511**	**2,650,239**

Notes to the Pension Fund Accounts (continued)

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Council and its investment consultant in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks. The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

31-Mar-19 £000	Asset Type	31-Mar-20 £000
27,593	Cash and cash equivalents	31,585
4,707	Cash balances	9,076
79,206	Index-linked securities	155,686
296,716	Fixed interest securities	203,953
408,222	**Total**	**400,300**

Interest rate risk sensitivity analysis

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. An 80 basis point (BPS) (i.e. 0.80%) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's investment consultant has advised that long-term average rates are expected to move less than 80 basis points from one year to the next and experience suggests that such movements are likely. The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS (1.0%) change in interest rates:

Exposure to interest rate risk	Asset values at 31-Mar-20 £000	Impact of 1% decrease £000	Impact of 1% increase £000
Cash and cash equivalents	31,585	31,585	31,585
Cash balances	9,076	9,076	9,076
Index-linked securities	155,686	157,243	154,129
Fixed interest securities	203,953	205,993	201,913
Total change in assets available	**400,300**	**403,897**	**396,703**

Exposure to interest rate risk	Asset values at 31-Mar-19 £000	Impact of 1% decrease £000	Impact of 1% increase £000
Cash and cash equivalents	27,593	27,593	27,593
Cash balances	4,707	4,707	4,707
Index-linked securities	79,206	79,998	78,414
Fixed interest securities	296,716	300,279	293,749
Total change in assets available	**408,222**	**412,577**	**404,463**

Notes to the Pension Fund Accounts (continued)

Exposure to interest rate risk	Interest receivable 2019-20 £000	Value on 1% increase £000	Value on 1% decrease £000
Cash deposits, cash and cash equivalents	**561**	567	555
Index-linked securities	**494**	499	489
Fixed interest securities	**2,026**	2,046	2,006
Total	**3,081**	**3,112**	**3,050**

Exposure to interest rate risk	Interest receivable 2018-19 £000	Value on 1% increase £000	Value on 1% decrease £000
Cash deposits, cash and cash equivalents	**360**	364	356
Index-linked securities	**424**	428	420
Fixed interest securities	**3,598**	3,598	3,598
Total	**4,382**	**4,390**	**4,374**

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash and cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of the assets and the income received from investments impact on the net assets available to pay benefits.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (GBP). The Fund holds both monetary and non-monetary assets denominated in currencies other than GBP.

The Fund's currency rate risk is routinely monitored by the Investment Sub Committee and its investment advisers in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

During the year the Fund partially hedged the currency exposures on its equity investments by transferring into currency hedged share classes of its passive equity funds

Currency risk – sensitivity analysis

Following analysis of historical data with the Fund's advisers, the Council considers the likely volatility associated with foreign exchange rate movements to be 10.0% (the 1 year expected standard deviation). A 10.0% (31 March 2019: 10.0%) fluctuation in the currency is considered reasonable based on the Fund adviser's analysis of long-term historical movements in the month-end exchange rates over a rolling 36 month period. This analysis assumes that all other variables, in particular interest rates, remain constant. A 10.0% strengthening/weakening of the pound against the various currencies in which the fund holds investments would decrease/increase the net assets available to pay benefits as follows.

Assets exposed to currency risk	Value at 31-Mar-20 £000	Potential market £000	Value on increase £000	Value on decrease £000
Overseas Equities - Hedged	577,099	-	577,099	577,099
Overseas Equities - Unhedged	1,172,618	117,262	1,289,880	1,055,356
Overseas Fixed Income	203,953	20,395	224,348	183,558
Overseas Cash Fund	2,422	242	2,664	2,180
Total	**1,956,092**	**137,899**	**2,093,991**	**1,818,193**

Assets exposed to currency risk	Value at 31-Mar-19 £000	Potential market £000	Value on increase £000	Value on decrease £000
Overseas Equities	1,737,979	173,798	1,911,777	1,564,181
Overseas Fixed Income	226,543	22,654	249,197	203,889
Overseas Cash Fund	1,578	158	1,736	1,420
Total	**1,966,100**	**196,610**	**2,162,710**	**1,769,490**

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. In essence the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipts that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties. Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency. Deposits are not made with banks and financial institutions unless they are rated independently and meet the Council's credit criteria. The Council has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution.

Notes to the Pension Fund Accounts (continued)

The Council believes it has managed its exposure to credit risk, and has had no experience of default or uncollectible deposits over the past five financial years. The Fund's cash holding under its treasury management arrangements at 31 March 2020 was £40.6m (31 March 2019: £32.3m). This was held with the following institutions:-

	Rating	31-Mar-19 £000	31-Mar-20 £000
Money market funds			
Northern Trust Global Investors Global Cash Fund	Aaa-mf	27,427	30,835
Bank deposit account			
Barclays Bank	A	4,707	9,076
Bank current accounts			
Northern Trust custody accounts	P-1	166	750
Total		**32,300**	**40,661**

c) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The Fund has immediate access to its cash holdings, with the exception of holdings that are for a fixed term when the deposit is placed. The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2020 the value of illiquid assets was £742.9m, which represented 24.6% of the total Fund assets (31 March 2019: £600.7m, which represented 18.8% of the total Fund assets).

Management prepares periodic cash flow forecasts to understand and manage the timing of the Fund's cash flows. The appropriate strategic level of cash balances to be held forms part of the Fund investment strategy. All financial liabilities at 31 March 2020 are due within one year.

d) Refinancing risk

A key risk for a Pension Fund is that it may be bound to replenish a significant proportion of its Pension Fund financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its investment strategy.

Notes to the Pension Fund Accounts (continued)

19. FUNDING ARRANGEMENTS

In line with the Local Government Pension Scheme Regulations 2013, the Fund's actuary undertakes a funding valuation every three years for the purpose of setting employer contribution rates for the forthcoming triennial period. The last such valuation took place as at 31 March 2019. The next valuation will take place as at 31 March 2022 and will be published in 2023.
The key elements of the funding policy are:

- To ensure the long-term solvency of the Fund, i.e. that sufficient funds are available to meet all pension liabilities as they fall due for payment;
- To ensure that employer contribution rates are as stable as possible;
- To minimise the long-term cost of the scheme by recognising the link between assets and liabilities and adopting an investment strategy that balances risk and return;
- To reflect the different characteristics of employing bodies in determining contribution rates where the administering authority considers it reasonable to do so;
- To use reasonable measures to reduce the risk to other employers and ultimately to the council tax payer from an employer defaulting on its pension obligations.

The aim is to achieve 100% solvency over a maximum period of 20 years and to provide stability in employer contribution rates by spreading any increases in rates over a period of time. Solvency is achieved when the funds held, plus future expected investment returns and future contributions are sufficient to meet expected future pension benefits payable. Where an employer's funding level is less than 100%, a deficit recovery plan is put in place requiring additional contributions from the employer to meet the shortfall.

At the 2019 actuarial valuation, the Fund was assessed as 100% funded (78.4% at the March 2016 valuation). This corresponded to a deficit of £11m (2016 valuation: £625m) at that time.

The Contribution Objective is achieved by setting employer contributions which are likely to be sufficient to meet both the cost of new benefits accruing and to address any funding deficit relative to the funding target over the agreed time horizon. A secondary objective is to maintain where possible relatively stable employer contribution rates. For each employer in the Fund, to meet the Contribution Objective, a primary contribution rate has been calculated in order to fund the cost of new benefits accruing in the Fund. Additionally, if required, a secondary contribution rate has also been calculated to target a fully funded position within the employer's set time horizon.

The table below summarises the whole fund Primary and Secondary Contribution rates at the 2019 triennial valuation. These rates are the payroll weighted average of the underlying individual employer primary and secondary rates, calculated in accordance with the Regulations and CIPFA guidance.

Primary Rate %	Secondary Rate %		
1 April 2020 to 31 March 2023	2020/2021	2021/2022	2022/2023
18.4%	£19,425,000	£19,061,000	£19,082,000

The Primary rate above includes an allowance of 0.6% of pensionable pay for the Fund's expenses. The average employee contribution rate is 6.3% of pensionable pay. Full details of the contribution rates payable can be found in the 2019 actuarial valuation report and the funding strategy statement on the Fund's website.

Notes to the Pension Fund Accounts (continued)

Basis of valuation

The valuation of the Fund has been undertaken using the projected unit method under which the salary increase for each member is assumed to increase until they leave active service by death, retirement or withdrawal from service. The principal assumptions were:

Financial assumptions

A summary of the main financial assumptions adopted for the valuation of members' benefits are shown below.

Assumption	Description	31-Mar-16	31-Mar-19
Price Inflation (CPI)/ Pension increases		2.1%	2.3%
Pay increases		2.4%*	2.8%**

**CPI plus 0.3%*
***2% until March 2020 followed by CPI plus 0.5%*

Mortality assumptions

Future life expectancy based on the actuary's fund-specific mortality review was:

	Active and Deferred Members		Current Pensioners	
Assumed life expectancy at age 65	**Male**	**Female**	**Male**	**Female**
2016 valuation	24.0	26.3	22.4	24.4
2019 valuation	22.7	25.5	22.0	24.0

Note that the figures for active and deferred members assume that they are aged 45 at the valuation date.
Various scaling factors have been applied to the mortality tables to reflect the predicted longevity for each class of member and their dependants.

Other demographic valuation assumptions:

a) Retirements in ill health - Allowance has been made for ill-health retirements before Normal Pension Age.
b) Withdrawals - Allowance has been made for withdrawals from service.
c) Retirements in normal health - We have adopted the retirement age pattern assumption as used for the purpose of the 2016 LGPS cost cap valuation.
d) Death in Service - Allowance has been made for death in service.
e) Promotional salary increases – Allowance has been made for promotional salary increases.
f) Family details - A varying proportion of members are assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. The dependant of a male member is assumed to be 3 years younger than him and the dependant of a female member is assumed to be 3 years older than her.
g) Commutation - 25% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits for service to 1 April 2008 (equivalent 64% for service from 1 April 2008).
h) 50:50 option - 1.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option.

20. ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

In addition to the triennial funding valuation, the Fund's actuary also undertakes a valuation of the Pension Fund liabilities, on an IAS 19 basis, every year using the same base data as the funding valuation rolled forward to the current financial year, taking account of changes in membership numbers and updating assumptions to the current year.

In order to assess the value of the benefits on this basis, the Actuary has updated the actuarial assumptions (set out below) from those used for funding purposes (see Note 19). The actuary has also used valued ill health and death benefits in line with IAS 19.

31-Mar-19 £m		31-Mar-20 £m
(4,829)	Present value of promised retirement benefits	(4,305)
3,187	Fair value of scheme assets (bid value)	3,015
(1,642)	**Net liability**	**(1,290)**

As noted above, the liabilities are calculated on an IAS 19 basis and therefore will differ from the results of the 2019 triennial funding valuation (see note 19) because IAS 19 stipulates a discount rate rather than a rate which reflects market rates.

Note that the above figures include allowance for the "McCloud ruling", i.e. an estimate of the potential increase in past service benefits arising from this case affecting public service pension schemes.

Assumptions used

31-Mar-19 % p.a.	**Assumption**	**31-Mar-20 % p.a.**
2.5	Inflation/pension increase rate assumption	1.9
2.8	Salary increase rate	2.4
2.4	Discount rate	2.3

Notes to the Pension Fund Accounts (continued)

21. CURRENT ASSETS

31-Mar-19 £000		31-Mar-20 £000
	Debtors:	
1,847	Contributions Due – Members	2,288
5,900	Contributions Due – Employers	6,018
5,614	Sundry Receivables	9,827
13,361		**18,133**
4,707	Cash Balances	9,076
18,068		**27,209**

22. CURRENT LIABILITIES

31-Mar-19 £000		31-Mar-20 £000
3,088	Sundry Payables	7,363
389	Benefits Payable	1,808
3,477		**9,171**

23. ADDITIONAL VOLUNTARY CONTRIBUTIONS

31-Mar-19 £000		31-Mar-20 £000
7,683	Prudential	7,653
363	Equitable Life	-
-	Utmost	361
8,046		**8,014**

24. AGENCY

Agency Services represent activities administered by the Fund on behalf of scheme employers which are not included within the Fund Account but are provided as a service and are fully reclaimed from the employer bodies.

31-Mar-19 £000		31-Mar-20 £000
3,625	Unfunded pensions	3,618
3,625		**3,618**

Notes to the Pension Fund Accounts (continued)

25. RELATED PARTY TRANSACTIONS

Cambridgeshire County Council

The Cambridgeshire County Council Pension Fund is administered by Cambridgeshire County Council. Consequently there is a strong relationship between the Council and the Fund. The Council incurred costs of £2.4m (2018-19: £2.2m) in relation to the administration of the Fund and was subsequently reimbursed by the Fund for these expenses.

The Council is also the single largest employer of members of the Pension Fund and contributed £21.0m, excluding Local Education Authority schools, to the Fund in 2019-20 (2018-19: £21.0m). At 31 March 2020 there was £5.7m (31 March 2019: £0.2m) due to the Fund by the Council.

Governance

The following Pension Fund Committee members declared a personal interest due to either being a member of the scheme themselves or having a family member in the scheme:-

- Councillor Richard Robertson
- John Walker
- Lee Phanco

County Council members have declared their interests in their Register of Members' Interests. Other members of the Pension Fund Board are required to declare their interests at each meeting.

Cambridge and Counties Bank

The Fund is joint owner, along with Trinity Hall, Cambridge, of Cambridge and Counties Bank (CCB). As the Fund has no controlling interest in the Bank and it is included within the Fund's financial statements as a minority interest. An Officer of the Pension Fund is a Non-executive Director on the Board of CCB, for which CCB paid £52,250 during the year (2018-19 £49,688) to the Council.

25(a) KEY MANAGEMENT PERSONNEL

The administration of the Fund is provided by LGSS Pensions which is a shared service arrangement between Cambridgeshire County Council and Northamptonshire County Council. The Head of Pensions in the shared service unit reports directly to the Managing Director of LGSS, whose costs are reported in the Northamptonshire County Council statement of accounts. Other key personnel include the Section 151 Officer who is Treasurer to the Fund, and the Head of HR. The Interim Managing Director of LGSS, the Section 151 Officer and the Head of HR are remunerated for their services to the organisation as a whole and it is not possible to identify within the overhead charge from LGSS the proportion of costs relating to these services to the Fund.

26. CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

Outstanding capital commitments at 31 March 2020 totalled £318.0m (31 March 2019: £315.0m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing over a period of between three and fifteen years from the date of each original commitment.

27. CONTINGENT ASSETS

Nineteen admitted body employers in the Cambridgeshire Fund hold insurance bonds to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the Pension Fund and payment will only be triggered in the event of employer default, and usually only in the event of premature cessation.

Agenda Item No: 5

Cambridgeshire Pension Fund

Pension Fund Committee

23rd July 2020

Report by: Head of Pensions

Subject:	**Governance and Compliance Report**
Purpose of the Report	To provide the Pension Fund Committee with information on: 1) The activities of the Scheme Advisory Board (section 2) 2) The Local Government Pensions Committee, The Pensions Ombudsman and The Pensions Regulator – Coronavirus response (section 3, 4 and 5) 3) Legislation update (section 6) 4) Local governance matters (section 7 and 8) 5) Skills and knowledge opportunities (section 9 and appendix 4).
Recommendations	That the Pension Fund Committee notes the content of the report.
Enquiries to:	Jo Walton – Governance and Regulations Manager, LGSS Pensions E-mail: jwalton@northamptonshire.gov.uk

1. Background

1.1 This is a standing report that identifies issues concerning the governance of the Local Government Pension Scheme (LGPS) and also potential, new, amending and overriding legislation that will have an impact on how the Scheme is managed and on members' benefits.

2. The Scheme Advisory Board

2.1 Responsible Investment Guidance - update

2.1.1 On 22nd November 2019 the Scheme Advisory Board issued the first part of guidance on responsible investment which was open for consultation until 11th January 2020 (section 13.2 refers). The aim of the first part of the guidance was to assist and help investment decision makers to identify the parameters of operation within scheme regulations, statutory guidance, fiduciary duty and the general public law and the scope for integrating ESG (environmental, social and governance) policies as part of investment strategy statements.

2.1.2 The Scheme Advisory Board made it clear that there is no intention to prescribe the extent to which ESG policies must be adopted as this must remain a matter for local consideration and agreement in accordance with Ministry of Housing, Local Government and Communities' (MHCLG) statutory guidance.

2.1.3 ACCESS Funds collectively sought legal advice on the Draft Guidance which was fed into a joint response to the Scheme Advisory Board which can be found in **private appendix 1.**

2.1.4 As a result of the feedback from ACCESS and other Funds the Scheme Advisory Board issued a statement on 24th February 2020 acknowledging the concerns around the issues of fiduciary duty in the context of the LGPS and in particular the roles and responsibilities of elected members responsible for making investment decisions.

2.1.5 The Scheme Advisory Board statement recognised that the issues of fiduciary duty that were discussed during the recent Palestine Solidarity Supreme Court case (see 2.2) could shed some light on how the fiduciary duty test applies to LGPS investment decision makers and also the amendments to the Pension Schemes Bill which could have a significant impact on the way in which Investment Strategy Statements are prepared on ESG and climate change issues (section 4.1.1 refers).

2.1.6 For these reasons the Scheme Advisory Board felt it was not prudent at that stage to offer any definitive advice or guidance on how the fiduciary duty test applies to investment decision makers in the LGPS. Instead, the Scheme Advisory Board will consider and evaluate the judgement handed down by the Supreme Court and the government's position on the proposed climate change provisions in the Pension Schemes Bill before proceeding further.

2.1.7 However, the Scheme Advisory Board note that there are matters outside fiduciary duty where advice and information would continue to be helpful and so the guidance will be restructured to explain and clarify the terminology associated with responsible investment and provide investment decision makers with a range of information, case studies and tools to assist with the challenges associated with responsible investment. Stakeholders will be able to comment on this document once produced.

2.2 Supreme Court Decision on LGPS Investment Guidance

2.2.1 In June 2017 the High Court published its judgement in a judicial review case concerning the statutory guidance issued to accompany the LGPS (Management and Investment of Funds) Regulations 2016. The case was brought by the Palestine Solidarity Campaign Ltd and an LGPS member. It ruled that the section within the guidance stating that administering authorities should not pursue policies that are contrary to UK foreign policy or UK defence policy was unlawful.

2.2.2 The statutory guidance was reissued in 2017 with the relevant statements removed, however, the Ministry of Housing Communities and Local Government (MHCLG) appealed the High Court decision.

2.2.3 In June 2018 the Court of Appeal disagreed with the original ruling by the High Court which allowed the case to move to the Supreme Court. The statutory guidance remained published with the relevant statements removed.

2.2.4 In April 2020 the Supreme Court ruled that the legislation does not permit the Secretary of State to impose the government's view on foreign and defence policy on LGPS administering authorities.

2.2.5 On 11th May 2020 the Scheme Advisory Board published a statement on the Supreme Court judgement within which the Board welcomed the clarity resulting from the judgement. It also stated that the view of the Board is that responsible investment policy decisions belong at the local level reflecting the need to pay pensions now and in the future, local democratic accountability and the view of scheme members and that outcomes of policy developments should not be subject to restrictions based on unrelated matters.

2.2.6 On 8th June 2020 the Scheme Advisory Board published a summary of the Supreme Court judgement which was drafted with the assistance of the Board's legal advisor in an attempt to clarify the impact of the judgement on administering authorities.

2.2.7 The summary concludes that the fundamental duties and responsibilities of administering authorities remain the same in that they are responsible for investment decisions.

2.2.8 Should an authority wish to consider the non-financial factors in its investment decisions it may do so taking into account the requirements of the guidance including the potential financial impact and the views of its members. Such consideration may legally result in boycotts or disinvestment should the authority decide.

2.2.9 It should be noted that summary (that can be found in **appendix 2**) represents the views of the Scheme Advisory Board and doesn't constitute legal advice nor should it be relied upon or treated as a substitute for specific legal advice relevant to particular circumstances.

2.3 Good Governance Review

2.3.1 At the Scheme Advisory Board meeting of 3 February 2020 resources for phase 3 of the project were agreed. Phase 3 will determine the outcome measures it will use, the format of this work and a timetable for implementation.

2.3.2 At the time of writing there were no further updates to report.

2.3.3 At in-depth presentation on the Good Governance Review was delivered at the Information Day held at Wyboston Lakes on 6th March 2020. Copies of the slides were sent to members of the Pension Fund Committee following the event.

2.4 Annual Report

2.4.1 On 22nd May 2020, the 2019 LGPS England and Wales scheme annual report was published of which the highlights were:

- Total membership increased from 5.8m in 2018 to 5.9m in 2019 (0.6% increase)
- Total assets increased by 5.9% to £291bn
- Local authority returns on investment over 2018/19 was 6.6% (this was reflective of the market conditions during the year and set against the UK return of 6.4%.
- The scheme maintained a positive cash-flow position overall, including investment income
- Over 1.7m pensioners were paid over the year.

2.4.2 The full report can be found at the following link: https://lgpsboard.org/index.php/schemedata/scheme-annual-report

2.5 Coronavirus Response and Governance Survey

2.5.1 During the first two weeks of May 2020 the Scheme Advisory Board undertook a survey to understand how the governance of the LGPS has been affected by the Coronavirus. The majority of administering authorities in England, Wales, Scotland and Northern Ireland responded to the survey.

2.5.2 One of the highlights from the report concerned virtual Pension Fund Committee and Local Pension Board meetings. 73 out of the 83 respondents had already held or were planning to hold virtual meetings with the remaining 10 using alternative methods for decision making such as delegated decision making to a combination of the s151 Officer and/or Chairman or Vice-Chairman, the Chief Executive or a Covid-19 Special Committee.

2.5.3 The summary of the survey findings can be found at the following link: https://lgpsboard.org/images/Covid-19/LGPS_governance_survey_results_May2020.pdf

3. Local Government Pensions Committee (LGPC) – Coronavirus response

3.1 The LGPC, which is part of the Local Government Association (LGA), provides technical advice and information on the LGPS and related compensation matters to LGPS administering authorities and employers. It is a vital and valuable service that is funded through an annual levy calculated on membership numbers.

3.2 To support administering authorities during the pandemic the LGPC have set up dedicated news and information pages on their website http://www.lgpsregs.org/news/covid-19-news-2020.php. These pages contain:

- Frequently asked questions for scheme members, employers and administrators
- Guidance on the government's Coronavirus job retention scheme, re-employment of key workers and the NHS and Social Care Coronavirus Life Assurance Scheme (England).
- Links to the Pensions Regulator and Pensions Administration Standards Association guidance for administrators and employers.

3.3 The frequently asked questions for employers and scheme members have been made available on the LGSS Pensions Website at the following links:

Scheme members: https://lgssmember.pensiondetails.co.uk/home/coronavirus
Scheme employers: https://pensions.northamptonshire.gov.uk/covid-19-important-information/

4. The Pensions Ombudsman – Coronavirus response

4.1 At the start of lockdown the Pensions Ombudsman made an announcement that they would not be able to process any new enquiries or complaints received either by email or post and that they would be focussing on existing queries and complaints only. The Pensions Ombudsman did state that they would, wherever possible, use their discretion to extend the three-year time limit for new applicants affected by the period of restricted service.

4.2 The Pensions Ombudsman has since announced that from 22nd April 2020 they will accept new applications by email and their telephone lines were reopened but do not have access to correspondence sent by post during the lockdown period.

5. The Pensions Regulator

5.1 Coronavirus Response

5.1.1 On 2nd April the Pensions Regulator issued guidance on the operational priorities that scheme administrators should focus on during the pandemic as follows;

Paying members' benefits
Retirement processing
Bereavement services
Processes needed to ensure benefits are accurate

5.1.2 These operational priorities reflect those contained within the Fund's Business Continuity Plan.

5.2 Pension Scams

5.2.1 The Pensions Regulator also warned scheme administrators to be vigilant and make sure members are not rushed into any financial decisions during the uncertain time of the pandemic where members could be at risk of being targeted by scammers.

5.2.2 As such the Pensions Regulator in conjunction with the Financial Conduct Authority and the Money & Pensions Service have produced a leaflet for scheme members advising of how they may be a target of a scam and signposting for further support and advice.

5.2.3 This leaflet (which can be found in **appendix 3** is now included in all communications to scheme members in which they have enquired about a transfer to any non-occupational pension scheme.

6. Legislation update

6.1 Pension Schemes Bill 2019

6.1.1 On 19 December, in the Queen's Speech, it was announced that the Pension Schemes Bill will be reintroduced. The Bill will create a legislative framework for the introduction of pension dashboards, to strengthen the Pensions Regulator's powers to take action against employers and introduce regulations covering the right to a pension transfer. Further amendments to the Bill concern the way in which Investment Strategy Statements are prepared with reference to ESG and climate change issues.

6.1.2 Further line by line examination of the Bill was scheduled to be undertaken by the House of Lords on 30 June 2020.

6.2 McCloud update

6.2.1 The McCloud case concerns the transitional protections given to scheme members, who in 2012 were within 10 years of their normal retirement age, in the Judges and Firefighters' Pension Scheme introduced as part of the public service pension schemes reform.

6.2.2 On 20th December 2018 the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and couldn't be justified. The Supreme Court denied the government permission to appeal on 27th June 2019.

6.2.2 On 15th July 2019 a statement from the Chief Secretary to the Treasury confirmed that as protections were applied to all members within 10 years of retirement in all other public service pension schemes (such as the LGPS) that the principals of the outcome would apply to all public service pension schemes.

6.2.3 In the LGPS the protection compares the benefits payable under current rules with benefits that would have been paid if the scheme had not changed in 2014 and pays the higher.

6.2.4 Members who have been discriminated against will need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members. Such remedies will need to ensure that the benefits of unprotected members will need to be raised rather than the benefits of protected members being reduced.

6.2.5 On 15th November 2019, the Scheme Advisory Board provided an update within which it was suggested that it was likely the LGPS will be treated separately from the rest of the public sector with regards to the remedy and would likely involve the extension of some form of underpin to members in scope who are currently not offered protection. As such a full history of part time hour changes and service breaks from 1st April 2014 will be needed to recreate the service history. It is also likely that in order to ensure reverse discrimination doesn't occur all leavers since 2014 will need to be checked against a new underpin.

6.2.6 Decisions on scope, extent, nature of the remedy will largely be driven by the views of government lawyers who will seek to ensure that any agreed remedy removes as far as possible the risk of challenge.

6.2.7 It is thought that not many members will see any increase to their benefits and for others any increase is likely to be small due to low salary growth since the new schemes were introduced. Changes to the scheme will be backdated to April 2014 and will apply to all qualifying members who left the LGPS after that date and will also include the benefits of those that have since transferred out and survivors pensions.

6.2.8 Implementing and communicating the changes will be extremely challenging and not expected to commence before the end of 2020/21. The Scheme Advisory Board have established an implementation group to assist LGPS administering authorities and employers with this challenge.

6.2.9 Scheme members need not take any action or submit a 'claim' as their benefits will be automatically adjusted where appropriate. Claims companies have been targeting members of other public service pension schemes such as the Teachers' and Police Pension Schemes and charging a fee for a service that members do not need to use.

6.2.10 A 12 week consultation on the proposed changes to the LGPS regulations as a result of the remedy is expected to commence in July 2020. Ahead of this, the Fund's benefit and governance consultants Aon Solutions UK Limited have been commissioned to provide all key staff within LGSS Pensions with training on the background and remedy of McCloud. Senior managers will be provided with information on the likely scale of the administration work required as a result of the remedy with a view to scoping a project plan as referenced in the Business Plan and Medium Term Strategy. It is anticipated that a verbal update will be provided at this meeting on the information supplied by Aon.

6.3 LGPS (Amendment) Regulations 2020 – exit credits

6.3.1 On 27th February 2020, MHCLG published a partial response to the consultation covering the changes to the local valuation cycle and the management of employer risk. The response covers the proposals on exit credits only. MHCLG will submit a further response on the outstanding items in due course.

6.3.2 As a result the LGPS regulations, via the LGPS (Amendment) Regulations 2020, were amended on 20th March 2020 but with effect from 14th May 2018 so that:

- Administering authorities may determine the amount of any exit payment credit due, having regard to any relevant considerations
- An exit payment must be made within 6 months (previously 3 months)
- Administering authorities will not be obliged to enquire into the precise risk sharing agreement adopted
- Any exit credits that have not been paid shall only be due if the administering authority exercises its discretion to pay them
- Any exit credits that have been paid shall be treated as if the administering authority exercised its discretion to pay that amount – an administering authority may not seek to change the amount paid
- The Pensions Ombudsman has jurisdiction to hear complaints if any dispute is not resolved using the Internal Dispute Resolution process
- Administering authorities should set out their exit credit policy in their Funding Strategy Statement.

7. Local Pension Board Insurance

7.1 The Local Pension Board insurance policy for members of the Cambridgeshire Pension Fund Local Pension Board has been renewed for the 2020/21 financial year. A copy of the policy can be made available upon request.

8. Transfer of AVC policies from Equitable Life to Utmost Life and Pensions

8.1 Following the High Court hearings on 22 and 25 November 2019, court approval to transfer the business of Equitable Life to Utmost Life and Pensions was received on 4 December 2019 effective 1 January 2020.

8.2 Uplifts have now been applied to with-profits policies and subsequently converted to unit-linked policies. Members with these AVC policies have been written to confirming the transfer has taken place and have been given details of the alternative investment strategies other than the default investment option selected by the Fund.

9. Skills and knowledge opportunities – training events

9.1 Section 248A of The Pensions Act 2004 as incorporated within The Pensions Regulator's Code of Practice (Governance and administration of public service pension schemes) requires all members of the Pension Fund Committee to maintain the necessary skills and knowledge to undertake their role effectively.

9.2 In order to facilitate the acquisition of skills and knowledge for members of the Pension Fund Committee **appendix 4** lists the main events that are deemed useful and appropriate.

9.3 Requests to attend events will be facilitated by the Governance Team. It may be necessary to restrict numbers of attendees on some courses through reasons of cost.

9.4 It should be noted that the schedule of events in appendix 4 details only the events that are known to be taking place during the pandemic and are virtual/online events only. As soon confirmation is received that face-to-face events are able to be held an amended schedule of events will be issued.

10. Relevant Pension Fund Objectives

To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance. *Objective 1*
To manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers. *Objective 2*
To ensure that the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment. *Objective 3*
To continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. *Objective 5*

11. Risk Management

11.1 The Pension Fund Committee are required to have the appropriate skills and knowledge to effectively carry out their duties. This report ensures that the Pension Fund Committee is up to date with:

- New or amending legislation affecting the LGPS;
- Relevant activities of the LGPS Scheme Advisory Board and the Pensions Regulator that concern the governance of the (LGPS) on a national and local basis; and
- Skills and knowledge opportunities.

11.2 The risks associated with the Pension Fund Committee not having the required level of knowledge and understanding have been captured in the Fund's risk register as detailed below.

Risk No	Risk	Residual risk rating
7	Those charged with governance of the Fund and Scheme are unable to fulfil their responsibilities effectively.	Green
13	Failure to administer the scheme in line with regulations and guidance.	Green
16	Failure to provide relevant information to the Pension Fund Committee/Pension Board to enable informed decision making.	Green

11.3 The Fund's risk register can be found on the LGSS Pensions website at the following link: https://pensions.cambridgeshire.gov.uk/app/uploads/2019/10/RiskRegisterCPF.pdf

12. Finance & Resources Implications

12.1 There are no financial or resource implications connected to the contents of this report is for information only.

13. Communication Implications

Training	All staff involved in the administration of the LGPS are aware of the new legislation and the impact on the calculation and payment of benefits from the scheme.

14. Legal Implications

14.1 There are no legal implications connected to the contents of this report as this report is for information only.

15. Consultation with Key Advisers

15.1 There has been no requirement to consult with advisers over the content of this report.

16. Alternative Options Considered

16.1 There are no alternative options to be considered.

17. Background Papers

17.1 Scheme Advisory Board Draft Responsible Investment Guidance (Part 1) - https://lgpsboard.org/images/Consultations/RIGuidance/DRAFT_Part_1_Responsible_Investment_Guidance_Final_pdf_version.pdf

18. Appendices

18.1 **Private Appendix 1** – ACCESS response to Scheme Advisory Board draft investment guidance

18.2 Appendix 2 – Scheme Advisory Board summary Supreme Court judgement

18.3 Appendix 3 – The Pensions Regulator's scam warning leaflet

18.4 Appendix 4 – Schedule of virtual training events.

Checklist of Key Approvals	
Has this report been cleared by Section 151 Officer?	Sarah Heywood –
Has this report been cleared by Head of Pensions?	Mark Whitby – 26 June 2020
Has the Chairman of the Pension Fund Committee been consulted?	Councillor Rogers –
Has this report been cleared by Legal Services?	Fiona McMillan –

The Local Government Pension Scheme Advisory Board

Supreme Court decision on LGPS investment guidance

Summary

In a judgment handed down on 29 April 2020, the Supreme Court has ruled by a narrow majority that the Secretary of State for Housing, Communities and Local Government exceeded his powers when issuing guidance in 2016 to Local Government Pension Scheme (**LGPS**) administering authorities which purported to prohibit the adoption of investment policies that are contrary to UK foreign policy or UK defence policy.

Background

- 1 November 2016 - The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the **2016 Regulations**) come into force setting out the provisions governing the management and investment of LGPS pension funds by administering authorities. Regulation 7(1) of the 2016 Regulations provides for the formulation by administering authorities of an investment strategy statement in accordance with statutory guidance.

- 1 November 2016 - As envisaged by the 2016 Regulations, statutory "Guidance on Preparing and Maintaining an investment strategy statement" issued by the then Department for Communities and Local Government came into effect. The guidance permitted ethical and social objections to a particular investment to be taken into account. However, it expressly stated that it was "*inappropriate*" for administering authorities to use pension policies "*to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries…other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government*", and that LGPS funds "*should not pursue policies that are contrary to UK foreign policy or UK defence policy*". This restriction would have operated even if the proposed investment policy did not involve significant financial risk to the fund and irrespective of whether there were reasonable grounds to believe that it would be supported by members.

- June 2017 - A judicial review challenge was brought by Palestine Solidarity Campaign Ltd and a LGPS member, alleging that the Secretary of State had gone beyond the scope of the powers granted to him under the 2016 Regulations by including these passages in the guidance. The High Court agreed, finding that the powers provided by the legislation could only be exercised for pension purposes and that the Secretary of State had not acted for such a purpose when issuing the guidance.

- July 2017 – The Department reissued the guidance with the relevant passages removed.

- June 2018 - The Secretary of State appealed the decision and the Court of Appeal disagreed with the High Court allowing the appeal. The decision found that there was nothing objectionable in the Secretary of State having regard to considerations of wider public interest, including foreign policy and defence policy, in formulating such guidance. However, the Department did not revise the guidance at that point because leave to appeal the Court of Appeal decision was granted.

IMPORTANT: This document is for informational purposes only. Although it was drafted with the assistance of the Board's legal advisor nothing in this document constitues legal advice nor should it be replied upon or treated as a substitute for specific legal advice relevant to particular circumstances.

- April 2020 – Supreme Court decision on the appeal by the Palestine Solidarity Campaign Ltd and a LGPS member against the Court of Appeal decision was published.

Purpose of the summary

This summary seeks to clarify the direct legal impact of the Supreme Court's judgement in relation to investment guidance issued by the Secretary of State. It also includes items of interest from the court's reasoning in reaching its judgement that may inform the thinking of both scheme stakeholders and government in the future.

The Decision and its Direct Impact

Essentially, the Supreme Court had to answer the following question: is the power granted to the Secretary of State under the 2016 Regulations wide enough to entitle him to issue guidance which effectively prohibits LGPS administering authorities from pursuing policies that are contrary to UK foreign or defence policy? If that power is not wide enough to allow the Secretary of State to issue guidance in such terms, then it was unlawful for him to do so.

By a 3-2 majority, the Supreme Court found that the Parliamentary purpose in conferring the relevant power on the Secretary of State was to enable him to provide guidance about how administering authorities should administer and manage the LGPS funds, and how, within the investment strategy, they should take ethical considerations into account.

However, the Court found that in the contested passages of the guidance, the Secretary of State had, according to Lord Wilson, incorporated something quite different: *"an attempt to enforce the government's foreign and defence policy"*.

The outcome of the decision is that the Secretary of State went beyond his powers by including the contested passages in the guidance. The reissued guidance from July 2017 (with the relevant passages removed) remains valid.

The judgement does not change the fundamental duties and responsibilities of LGPS administering authorities in relation to their investment or other powers. The administering authorities remain responsible for investment decisions.

Potential Indirect Impact of the Decision on MHCLG Guidance

Although the decision did not challenge the validity of any extant guidance (in fact comments made by the Court do not challenge the status of the investment guidance outside of the contested passages), the Court's reasoning may impact on the nature of future guidance issued by the Secretary of State.

Section 3 of the Public Service Pensions Act 2013 (the **2013 Act**) enables the responsible authority to make, subject to the Act, such regulations as they 'consider appropriate'. Schedule 3 of the Act sets out the matters for which regulations may make provision these include, at paragraph 12, the "*administration and management*" of schemes, including for the issue of guidance or directions in that regard.

The Supreme Court found that the policy of the 2013 Act, recognised in the case of the LGPS by the 2016 Regulations and indeed by most of the guidance, is for guidance to identify procedures and the strategy which administering authorities should adopt in the discharge of their functions.

IMPORTANT: This document is for informational purposes only. Although it was drafted with the assistance of the Board's legal advisor nothing in this document constitues legal advice nor should it be replied upon or treated as a substitute for specific legal advice relevant to particular circumstances.

However, Lord Carnwath states that the scope of statutory guidance does not necessarily have to be *"confined to purely procedural or operational matters"*. For example, there is no reason *"why the guidance should not extend to guidance on the formulation of the investment strategy, including the social and other matters appropriate to be taken into account."*

Whilst the Secretary of State had the power, through guidance, to direct how administering authorities should approach the making of investment decisions by reference to non-financial considerations, the Secretary of State did not have the power to *"direct (in this case for entirely extraneous reasons) what investments they should not make" (Lord Wilson).* In doing so, the Secretary of State went beyond his powers.

The Supreme Court's comments could have wider implications for MHCLG should it wish to consider using statutory guidance to mandate how LGPS administering authorities should act in the future. Although the actual impact of these comments will vary from case to case such action may in future require changes to the relevant regulations governing the LGPS.

Other Points of Interest in the Decision

Investment Issues

Following the Supreme Court's decision, it is now clear that current legislation does not permit the Secretary of State to impose the government's view on foreign and defence policy on LGPS administering authorities.

Whilst the Board has not been made aware whether any LGPS funds are in fact actively seeking to formulate ESG policies which would run counter to UK government policy in these areas, we now have certainty that, subject to compliance with the reminder of the guidance, it would be lawful for them to do so.

None of the judges take issue with the section of the guidance dealing with the extent that administering authorities can take social, environmental and corporate government factors into account when making investment decisions. Lord Wilson specifically notes that there is general acceptance that the criteria proposed by the Law Commission are lawful and appropriate and that administering authorities may take non-financial considerations into account where this would *"not involve a risk of significant financial detriment"* and where the administering authority has *"good reason to think that scheme members would share the concern."*

Fundamentally, the decision does not change the role or duties of administering authorities in relation to their investment or other powers and confirms that the administering authority remains responsible for investment decisions.

Status of Administering Authorities

The judgment confirms that a local authority, when acting in its role as an administering authority of an LGPS fund, should not be viewed as part of the machinery of the state, acting on behalf of the UK central government.

There is express endorsement by Lord Wilson of the view that administering authorities have duties which are "*similar to those of trustees*" and, of Lord Carnwath, that they are "*quasi-trustees*" of their funds. References to quasi-trustees would appear to be taken straight from

IMPORTANT: This document is for informational purposes only. Although it was drafted with the assistance of the Board's legal advisor nothing in this document constitues legal advice nor should it be replied upon or treated as a substitute for specific legal advice relevant to particular circumstances.

statements in the Law Commission report that "*in practice administering authorities consider themselves to be quasi-trustees*". The Law Commission report does not go further than this, other than quoting some LGPS fund materials to support the statement.

However, the term "quasi trustee" has no clear legal definition in pension legislation (public or private) and therefore we should be careful not to read too much into this statement with regard to the legal status of administering authorities other than they have duties which are similar to trustees.

Importantly, the judgment does not suggest that administering authorities are actual trustees and does make it clear that the LGPS is a statutory occupational pension scheme[1] not a trust-based pension scheme.

Are LGPS Funds Public Money?

In pursuing an argument that administering authorities were part of the machinery of state, MHCLG also argued that LGPS funds are "*public money*". What MHCLG appear to have argued is that because LGPS funds are ultimately funded by the taxpayer, they are effectively the government's money and therefore the government has the power to direct how those funds should be used via guidance.

Lord Wilson rejected this argument, quoting Sir Nicolas Browne-Wilkinson VC from the Imperial Tobacco case[2], making the point that contributions are paid by both employees and employers and that employer contributions are made in consideration of the work done by their employees and so represent another element of the employees' overall remuneration.

Lord Wilson came to the conclusion that LGPS funds should rather be viewed as representing employees' money rather than public money.

This comment may be at risk of being taken out of context and should not be interpreted as meaning that LGPS funds are owned or controlled by the members. It is clear elsewhere in the judgement that the LGPS is a statutory pension scheme and that the primary responsibility for delivering the functions of the LGPS rests with its administering authority.

There is no suggestion that the assets of an LGPS fund legally vest in anybody but the administering authority. We do not believe that Lord Wilson was making such a suggestion. In fact, Lord Carnwath specifically states that, "*responsibility for investment decisions thus rests with the administering authorities*".

Conclusion

Although the judgement was primarily concerned with the exercise of the Secretary of State's powers, comments made by Lord Wilson and Lord Carnwath may be viewed as providing support for ensuring that, when taking non-financial considerations into account in relation to investment decisions, members' views should be effectively communicated to, and considered by, administering authorities as an intrinsic part of their investment decision making processes.

Otherwise, the judgement does not change the fundamental role or duties of LGPS administering authorities in relation to their investment or other powers and confirms that

---

1 Paragraph 4 of the judgement.

2 Imperial Group Pension Trust Ltd v Imperial Tobacco Ltd [1991] 1 WLR 589, 597

IMPORTANT: This document is for informational purposes only. Although it was drafted with the assistance of the Board's legal advisor nothing in this document constitues legal advice nor should it be replied upon or treated as a substitute for specific legal advice relevant to particular circumstances.

administering authorities remain responsible for the investment decisions of their respective funds.

8th June 2020

IMPORTANT: This document is for informational purposes only. Although it was drafted with the assistance of the Board's legal advisor nothing in this document constitues legal advice nor should it be replied upon or treated as a substitute for specific legal advice relevant to particular circumstances.

Dear Member

We are writing to you as you may be considering transferring your pension. In these times of financial uncertainty, we are asking you to be very careful. Since the coronavirus outbreak began, stock markets have fallen and are likely to go up and down for some time. However, your pension remains a safe, long-term investment for your retirement, and transferring it is a serious decision so please do not do anything in haste.

If anyone approaches you directly to offer transfer advice, be on your guard. The government has banned cold calling for pensions, so if anyone calls you out of the blue about yours, just hang up – it could be a scam. You can also visit the ScamSmart website at www.fca.org.uk/scamsmart to check the firm you are dealing with is regulated and to see whether what you're being offered is a known scam or has the signs of a scam.

There are two types of pension – defined benefit (DB) and defined contribution (DC). If you have a DB pension, the benefits you'll get in retirement (including how much you get paid each month) are specified – whereas with a DC pension, your benefits will depend on the performance of investments and the level of contributions made by you and your employer before your retirement.

Legislation gives you the right to 'transfer' your pension. However, whilst you have this right, in most cases, transferring out of a DB pension scheme into a different type of pension arrangement is unlikely to be in your best long-term interests as you'll be giving up a valuable level of predictability in your retirement income.

Please remember that you can't change your mind once you've transferred out of a DB pension.

It is therefore really important that you get guidance or advice before making a decision. The Pensions Advisory Service (TPAS) is part of the Money and Pensions Service and offers free specialist pensions guidance and will help answer any questions you may have. If your transfer value is more than £30,000, you are required by law to take advice from a suitably qualified financial adviser regulated by the Financial Conduct Authority (FCA), before you can transfer your benefits to a DC pension scheme.

Take your time to make all the checks you need – you can find suggested questions to ask your adviser on the FCA’s website: https://fca.org.uk/consumers/what-ask-adviser with further information on pension transfers at https://www.fca.org.uk/consumers/pension-transfer

We hope that you are able to stay safe and well in these difficult times.

Yours sincerely

Nicola Parish
The Pensions Regulator

Megan Butler
Financial Conduct Authority

Alex Connolly
The Money and Pensions Service

Appendix 4

Cambridgeshire Pension Fund - Online and virtual training events

Date	Event Description	Audience	Knowledge Credits
12th June 2020	Schroders Trustee Responsibilities (Webinar)	Officers, s151 Officers, Pension Committee and Local Pension Board members	2
19th June 2020	Schroders The Pensions Landscape (Webinar)	Officers, s151 Officers, Pension Committee and Local Pension Board members	2
24th June 2020	CIPFA Local Pension Board Annual Event (Webinar)	Local Pension Board members	2
26th June 2020	Schroders Growth Investment (Webinar)	Officers, s151 Officers, Pension Committee and Local Pension Board members	2
3rd July 2020	Schroders Managing Liabilities (Webinar)	Officers, s151 Officers, Pension Committee and Local Pension Board members	2
15th July 2020	LGSS Pensions Responsible Investment Information Day (via Zoom) **Objectives of the day:** To understand the importance of RI and how RI can be implemented within the context of pooling	Officers, s151 Officers, Pension Committee and Local Pension Board members	4
4th November 2020	LGSS Pensions Information Day (content and method to be advised nearer the time)		

Agenda Item No: 6

CAMBRIDGESHIRE PENSION FUND

LGSS

Pension Fund Committee

23rd July 2020

Report by: Head of Pensions

Subject:	**Administration Performance Report**
Purpose of the Report	To present the Administration Performance Report to the Pension Fund Committee
Recommendations	The Pension Fund Committee are asked to note the Administration Performance Report
Enquiries to:	Joanne Walton, Governance and Regulations Manager jwalton@northamptonshire.gov.uk

1. Background

1.1 One of the core functions of the Pension Fund Committee is to ensure the effective and efficient governance and administration of the scheme. This report demonstrates a number of key areas of administration performance for consideration by the Pension Fund Committee.

2. Variances against the forecast of investments and administration expenses

2.1 The tables in **appendix 1** provide an update of the Fund account, investment and administration income and expenditure against the cash flow projection outlined in the Annual Business Plan as agreed by the Pension Fund Committee in June 2020.

3. Key Performance Indicators – LGSS Pensions

3.1 The Pension Fund Committee has previously agreed a set of key performance indicators (KPIs) to assess the performance of LGSS Pensions.

3.2 Full KPI details for the period 1st November 2019 to 31st May 2020 can be found in **appendix 2**.

4. Receipt of Employee and Employer Contributions

4.1 Employers in the Fund have a statutory obligation to arrange for the correct deduction of employee and employer contributions and to ensure payment reaches the Pension Fund by the 19th of the month following the month of deduction. Providing an associated monthly statement/schedule in a format acceptable to the Administering Authority.

4.2 The table in **appendix 3** shows the percentage of employers in the Cambridgeshire Pension Fund who paid their employee and employer contributions and/or submitted their schedules on time or late for the period 1st May 2019 to 30th April 2020.

4.3 Details of late paying employers for October, November, December 2019 and January, February, March and April 2020 can be found in the **private and confidential appendix (appendix 4)** of the report.

5. Breaches of the Law

5.1 There are many and various laws relating to the Local Government Pension Scheme, with various individuals, including the Pension Fund Board, having a statutory duty to report material breaches of the law to the Regulator. The Cambridgeshire Pension Fund maintains a record of both material breaches that are reported to the Pensions Regulator as well breaches that are deemed not to be of material significance and so are not reported to the Pensions Regulator.

5.2 For the period 1st January to 31st May 2020, the following breaches occurred:

Type of Breach	Detail of Breach	Course of action
Material Breaches	None	None
Non Material Breaches	One stage 1 Internal Dispute Resolution Procedure response was not issued within the 2 month statutory deadline by the employer.	The employer has been contacted and reminded of their statutory obligations.
	Three stage 2 Internal Dispute Resolution Procedure responses were not issued within the 2 month statutory deadline. The responsibility of stage 2 appeals rests with the Cambridgeshire County Council Monitoring Officer.	Processes have been put in place to ensure reminders are sent at appropriate intervals. The Monitoring Officer should issue an extension letter where justifiable to avoid future breaches of this nature.
	16 refund of pension contribution payments were claimed by and paid to members outside of the statutory 5 year period.	No further action at this stage, it is likely that the legislation surrounding this will be amended to remove the 5 year requirement.
	803 entitlement letters were issued outside of the statutory 2 month period from the scheme being notified by the employer that the member had ceased membership.	Internal procedures have been amended to ensure that the issuing of the entitlement letter is undertaken as part of the process. In addition there will be a report run on a monthly basis to ensure these cases are being addressed.

	1,782 welcome letters were not issued to members joining the scheme within the statutory 2 month from the point that the employer has notified the scheme of the member joining.	Welcome letters are now being issued in accordance with the regulations and processes reviewed to ensure there is no delay in the future. The high volumes were as a result of an employer backlog being cleared, with data now being provided monthly.

6. Internal Dispute Resolution Procedure

6.1 Members, prospective members, and beneficiaries may not always agree with pension decisions that are made, or may be unhappy that decisions have not been made, by either an administering authority or a scheme employer. The Internal Dispute Resolution Procedure (IDRP) is the route by which they may raise their concerns and challenge such decisions.

6.2 In the period January to May 2020 the following activity occurred:

Nature of dispute	Stage 1	Stage 2	The Pensions Ombudsman (TPO)
Transfer out of pension benefits after benefit crystallisation event (received 03/12/2018)	Not upheld (29/01/2019)	Not upheld (15/5/2019)	Correspondence exchanged in January 2020. No further contact from TPO since.
Entitlement to frozen refund (received 21/11/2019)	Not upheld (13/01/2020)	N/A	N/A
Transfer out reinstatement (05/12/2019)	Pending additional information from scheme member requested 03/03/2020 – no further communication received.		

7. Data Improvement Plan 2019/20 – progress update

7.1 Resolution of unprocessed leaver records

Purpose of activity: To process all the unprocessed leaver benefits in accordance with the member's entitlement under the LGPS regulations.

Original timescale for action: 01/01/2019 – 31/12/2020

Revised timescale for completion: 01/01/2019 – 31/03/2021

Update: This activity has now been reframed in the 2020-21 Business Plan.

From the baseline position 3,017 (52%) backlog unprocessed leaver cases have now been completed. 309 of the outstanding cases are Phase 1 cases being processed by Aon, but require outstanding employer information in order to be processed.

Category	Total
Baseline (July 2018)	**5,823**
May 2020	**2,806**

Future milestones: Ongoing progress of this activity has been added to the 2020-21 Business Plan.

7.2 Contracted-out liabilities rectification

Purpose of activity: To correct any variances to pensions in payment as a result of any changes notified to the contracted-out earnings included within the pension.

Timescale for action: Amendments to pensions were scheduled to be made in March 2020.

Update: The delay in HMRC issuing the final data file has impacted the completion of this activity. At the time of writing it is expected that the final file of data will be received by 31 July 2020. HMRC have announced that the final file of data will contain some incorrect information which they will not be fixing. As such ITM Limited will be undertaking a further piece of work to ensure that correct information is used when the rectification of member's records is undertaken. Assuming the final file of data from HMRC is issued by 31 July, rectification of member records should commence in the autumn of 2020.

8. Employers Admissions and Cessations

8.1 The following admission bodies have been admitted to the Cambridgeshire Pension Fund:

- ABM Catering
- Busy Bee Cleaning Services
- Easy Clean Contractors
- Pabulum Ltd
- Taylor Shaw
- Radis Community Care
- VHS Cleaning Services Ltd

8.2 The following bodies have ceased to be an employer within the Cambridgeshire Pension Fund:

- Advanced Cleaning Services (ACS) Ltd
- Aspens Ltd
- Holmewood and District Internal Drainage Board
- Leisure Provisions Ltd,
- P3 – People, Potential and Possibilities
- Wisbech Grammar School
- Chilford Hundred Trust

9. Relevant Pension Fund Objectives

Have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance. *Objective 1*
Manage the Fund in a fair and equitable manner, having regard to what is in the best interest of the Fund's stakeholders, particularly the scheme members and employers. *Objective 2*
Ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment. *Objective 3*
Continually monitor and measure clearly articulated objectives through business planning *Objective 4*
Continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. *Objective 5*
Put in place performance standards for the Fund and its employers and ensure these are monitored and developed as necessary. *Objective 8*
Administer the Fund in a professional and efficient manner, utilising technological solutions and collaboration. *Objective 10*

10. Risk Management

10.1 The Fund's Administration Strategy sets out the performance standards of both the scheme employer and the administering authority. The Pension Fund Committee and Pension Fund Board are expected to monitor performance standards through information contained within the Administration Report which is presented at each meeting.

10.2 The mitigated risks associated with this report has been captured in the Fund's risk register as detailed below -

Risk No.	Risk	Residual risk rating
5	Information may not be provided to stakeholders as required.	Green
7	Those charged with governance are unable to fulfil their responsibilities effectively	Green
16	Failure to provide relevant information to the Pension Committee/Pension Board to enable informed decision making	Green

10.3 The Fund's risk register can be found on the LGSS Pensions website at the following link: https://pensions.cambridgeshire.gov.uk/app/uploads/2019/04/Cambridgeshire-Risk-Register.pdf

11. Communication Implications

Direct communications	The Fund publishes performance against the key performance indicators in the regular reports to the Pension Fund Committee and Pension Fund Board and in the Fund's Annual Report.

12. Finance & Resources Implications

12.1 There are no financial and resource implications associated with this report.

13. Legal Implications

13.1 Not applicable

14. Consultation with Key Advisers

14.1 Consultation with the Fund's advisers was not required for this report.

15. Alternative Options Considered

15.1 Not applicable

16. Background Papers

16.1 Not applicable

17. Appendices

17.1 Appendix 1 Variances against the forecast of investments and administration expenses
17.2 Appendix 2 Key Performance Indicators – LGSS Pensions
17.3 Appendix 3 Receipt of Employee and Employer Contributions
17.4 Appendix 4 Late payments of employee and employer contributions (private and confidential)

Checklist of Key Approvals	
Is this decision included in the Business Plan?	No
Will further decisions be required? If so, please outline the timetable here	No
Is this report proposing an amendment to the budget and/or policy framework?	No
Has this report been cleared by Section 151 Officer?	Sarah Heywood –
Has this report been cleared by Head of Pensions?	Mark Whitby – 26/6/20
Has the Chairman of the Pension Committee been consulted?	Councillor Rogers –
Has this report been cleared by Legal Services?	Fiona McMillan –

Appendix 1 – LGSS Pensions Administration Report

Variances against the forecast of investments and administration expenses – based on original setting of assumptions

Fund Account	2020-21 Estimate	2020 -21 Forecast	Variance	Comments
	£000	£000	£000	
Contributions	130,000	130,000	-	
Transfers in from other pension funds	5,200	5,200	-	
Total income	**135,200**	**135,200**	**-**	
Benefits payable	(114,000)	(114,000)	-	
Payments to and on account of leavers	(10,200)	(10,200)	-	
Total Payments	**(124,200)**	**(124,200)**	**-**	
	11,000	**11,000**	**-**	
Management Expenses	(5,149)	(5,283)	134	See analysis below
Total income less expenditure	**5,851**	**5,717**	**134**	
Investment income	40,000	40,000	**-**	
Taxes on income	-	-	**-**	
Profit and (losses) on disposal of investments and changes in the market value of investments	69,000	69,000	**-**	
Net return on investments	**109,000**	**109,000**	**-**	
Net increase/(decrease) in the net assets available for benefits during the year	**114,851**	**114,717**	**134**	

Management Expenses	2020-21 Estimate	2020-21 Forecast	Variance	Comments
	£000	£000	£000	
Total Administration Expenses	-2,644	-2,713	69	Increase in staff related costs as below.
Total Governance Expenses	-784	-849	65	Includes £22.5k 19/20 HEAT costs from Hymans. Circa. 200% increase on audit costs for the year due to a review of costs by EY.
Total Investment Invoiced Expenses	-1,721	-1,721	-	
Total Management Expenses	**-5,149**	**-5,283**	134	

Administration Expenses Analysis	2020-21 Estimate	2020-21 Forecast	Variance	Comments
	£000	£000	£000	
Staff Related	-1,423	-1,496	73	Staff costs are currently over budget as the budget is full capacity less 3 FTE Pension Officers. The section is only 1 FTE off full capacity.
Altair System and payroll system	-336	-336	-	
Data Improvement Projects	-313	-313	-	
Communications	-71	-71	-	
Other Non-Pay and Income	-16	-12	-4	Current underspend on agency costs.
County Council Overhead Recovery	-485	-485	-	
Total Administration Expenses	**-2,644**	**-2,713**	**69**	

.

Appendix 2 - Key Performance Indicators – LGSS Pensions November, December 2019 and January, February, March, April, May 2020

Function/Task	Indicator	Target	Completed		Within Target	Over Target	% Within Target	RAG	Comments
Notify leavers of deferred benefit entitlement	Notify leavers of deferred benefit entitlements or concurrent amalgamation within 15 working days of receiving all relevant information.	90%	November:	321	298	28	93	Green	SLA target met
			December:	283	180	103	64	Amber	SLA target not met
			January:	437	304	133	70	Amber	SLA target not met
			February:	206	114	92	55	Amber	SLA target not met
			March:	255	224	31	88	Amber	SLA target not met
			April:	197	188	9	95	Green	SLA target met
			May:	186	172	14	92	Green	SLA target met
Payment of retirement benefits from active employment	Notify employees retiring from active membership of benefits award, from date payable or date of receiving all necessary information if later within 5 working days.	95%	November:	63	48	15	76	Amber	SLA target not met
			December:	27	24	3	89	Amber	SLA target not met
			January:	45	44	1	98	Green	SLA target met
			February:	24	23	1	96	Green	SLA target met
			March:	27	25	2	93	Amber	SLA target not met
			April:	35	34	1	97	Green	SLA target met
			May:	33	32	1	97	Green	SLA target met
Payment of pension benefits from deferred membership status*	Notify members retiring from deferred membership status of benefits award, from date payable or date of receiving all necessary information if later within 10 working days.	95%	December:	37	31	6	84	Amber	SLA target not met
			January:	42	31	3	74	Amber	SLA target not met
			February:	41	38	3	93	Amber	SLA target not met
			March:	39	35	4	90	Amber	SLA target not met
			April:	57	46	11	81	Amber	SLA target not met
			May:	17	16	1	94	Amber	SLA target not met
Award dependant benefits – Statutory	Issue award within 5 working days of receiving all necessary information.	95%	November:	15	15	0	100	Green	SLA target met
			December:	26	24	2	92	Amber	SLA target not met
			January:	31	31	0	100	Green	SLA target met
			February:	24	24	0	100	Green	SLA target met
			March:	12	12	0	100	Green	SLA target met
			April:	18	18	0	100	Green	SLA target met
			May:	21	21	0	100	Green	SLA target met
Provide a maximum of one estimate of benefits to employees per year on request – Statutory	Estimate in agreed format provided within 10 working days from receipt of all information.	90%	November:	90	86	4	96	Green	SLA target met
			December:	89	84	5	94	Green	SLA target met
			January:	64	61	3	95	Green	SLA target met
			February:	66	66	0	100	Green	SLA target met
			March:	65	61	4	94	Green	SLA target met
			April:	43	42	1	98	Green	SLA target met
			May:	45	44	1	98	Green	SLA target met

Provide transfer-in quote to scheme member – Statutory	Letter issued within 10 working days of receipt of all appropriate information.	95%	November:	42	41	1	98	Green	SLA target met
			December:	30	30	0	100	Green	SLA target met
			January:	58	58	0	100	Green	SLA target met
			February:	53	47	6	89	Amber	SLA target not met
			March:	48	33	19	69	Amber	SLA target not met
			April:	10	8	2	80	Amber	SLA target not met
			May:	11	10	1	91	Amber	SLA target not met
Payment of transfer out – Statutory	Process transfer out payment – letter issued within 10 working days of receipt of all information needed to calculate transfer out payment.	90%	November:	6	6	0	100	Green	SLA target met
			December:	3	3	0	100	Green	SLA target met
			January:	6	6	0	100	Green	SLA target met
			February:	5	5	0	100	Green	SLA target met
			March:	9	9	0	100	Green	SLA target met
			April:	4	4	0	100	Green	SLA target met
			May:	5	5	0	100	Green	SLA target met

*New KPI introduced from December 2019 onwards.

Notify leavers of deferred benefit entitlement. Volume of work delivered caused a delay in being able to check and finalise cases. Half of the Records Team were being used on a high priority project which slowed team productivity. Project work was completed in March and a new process has been implemented.

Payment of retirement benefits from active employment. For November and December the team had vacancy, sickness and training issues which impacted productivity. Active retirements were not being completed on time as a result of absences remaining within team in March. Increased resource has been allocated to this area with additional cover to hand if needed to ensure sufficient cover to complete these within the statutory time frame.

Payment of pension benefits from deferred membership status. Active retirements took precedent and tasks were not being effectively managed. Increase in other areas of work such as estimates also added to the pressures within the team. There has now been a reorganisation of rotas to ensure these are being processed in a timely manner.

Provide transfer-in quote to scheme member. High volumes of work coupled with reduced staff in the team due to sickness in February and March impacted the work carried out in this area. Providing additional team training impacted the statistics for the period January to April and in May the cases were not identified from the work pool early enough, this has now been reviewed to ensure cases are picked up within the statutory and SLA timeframes going forward. System performance issues have also been a contributing factor to the stats from February onwards.

Appendix 3 - Receipt of Employee and Employer Contributions

Month/Year	% of Employers Paid on Time	% of Employers Paid Late	% of Employers that Submitted Schedule on Time	% of Employers that Submitted Schedule Late
May 2019	97.6	2.4	98.0	2.0
June 2019	99.6	0.4	100	0
July 2019	98.7	1.3	95.9	4.1
August 2019	98.3	1.7	99.6	0.4
September 2019	100	0	98.3	1.7
October 2019	100	0	96.9	3.1
November 2019	99.8	0.2	100	0
December 2019	97.1	2.9	97.1	2.9
January 2020	98.7	1.3	98.7	1.3
February 2020	96.6	3.4	96.7	3.3
March 2020	99.8	0.2	100	0
April 2020	99.6	0.4	99.3	0.7
Average for period	**98.8**	**1.2**	**98.4**	**1.6**